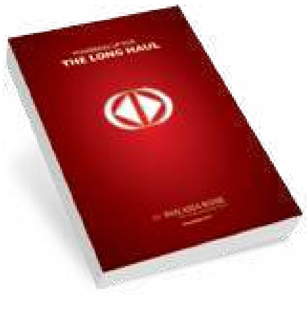
POWERING UP FOR
THE LONG HAUL

PAN ASIA BANK
The Understanding Bank

Annual Report 2017



As you read this annual report, you will be guided through our strategy, philosophy and performance during the year under review. The pages that follow are testament to our strong governing principles, commitment to the people we serve, and passion to create a positive impact in every life we touch.

Read on, and discover why we truly are the 'Understanding Bank'.

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

POWERING UP FOR
THE LONG HAUL

At Pan Asia Bank, we are very conscious of our responsibilities to thousands of stakeholders who trust us to look after their interests with commitment and integrity. This year, as in others, we have strived to meet our many challenges by turning them into opportunities for developing new avenues of growth; promising our customers value for money and our employees the chance to maximise their potential, while delivering the profitability our shareholders have come to expect each year.

As the 'Understanding Bank', we remain conscious of the work we have to do towards building an environmentally friendly, sustainable business while our deep commitment to social and national development has brought positive change to many people across the country.

Today we are proud to be a leading financial organisation that is strong, stable and resilient. We're ready for the future and we're taking the long-term view in all we do. We're powering up for the long haul.

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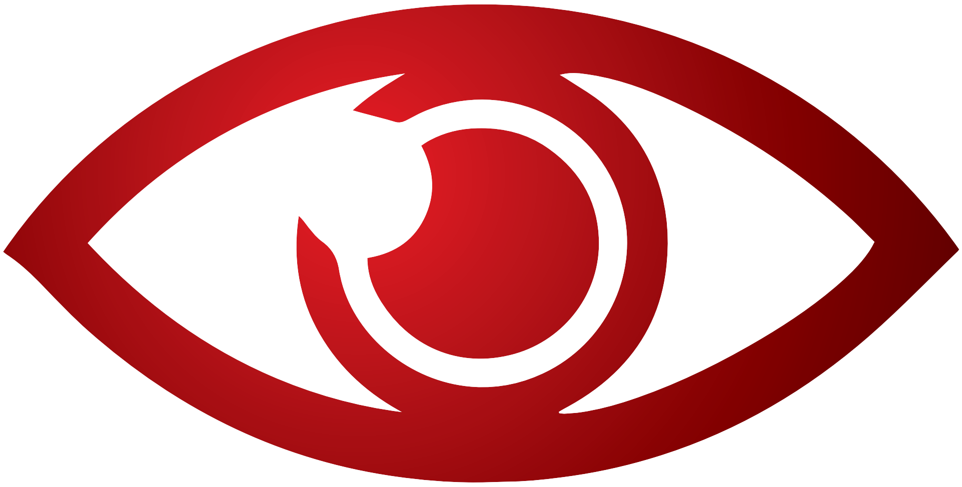


OVERVIEW

About Pan Asia Bank

At Pan Asia Bank, our foundation is strong. Over two decades of operations our philosophy has remained unchanged: we are a people-oriented entity, continuously evolving and transforming ourselves to meet the needs of the stakeholders we serve.

Deeply rooted in to the fabric of Sri Lankan culture, society and its values, our sole aspiration has always been to help the people, and this is just what we have achieved over the years - touching the lives of thousands of people from every walk of life, and assisting them to fulfill their dreams.

Here at Pan Asia Bank, we value connections. As 'The Understanding Bank', we place great emphasis on the relationships we have formed over time, standing steadfast with our customers even through challenging times. Our unwavering focus is on building a lifetime of value - creating a positive, lasting impact on lives across the island.

Our youthful, dynamic staff is our greatest asset. We are perceptive and agile, with a learning culture conducive to change. Our comprehensive knowledge and insight in to the local culture and values enables us to serve the people as best as we can, which is why our customers return to us time and time again.

This is why we have deployed a strong frontline, empowering and continuously investing in their well-being: all with one purpose in mind - to serve the people with care. This is our forte and the foundation on which our present day success has been built on.

We are about more than just banking. Forging lifelong relationships with each and every one of our customers is the cornerstone of our values, and the key to achieving our vision: 'To become the most customer preferred commercial bank in Sri Lanka'.

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.

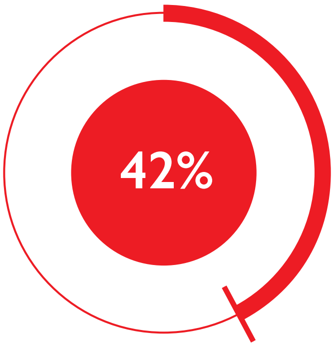
Strive for Excellence
We will put forth our best to provide the highest quality of Banking services by understanding customer needs and exceeding expectations.

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

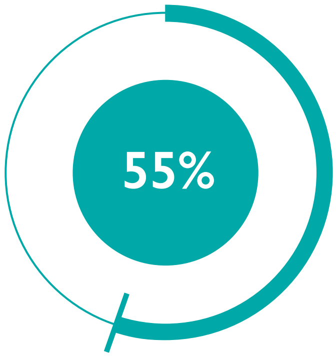
Mutual Trust and Respect
We connect to customers, communities, regulators and each other with respect, dignity and with mutual trust.

Financial Highlights

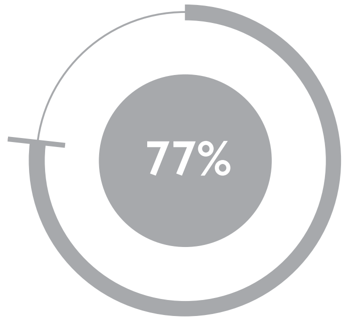
	2017	2016	Change %
Results for the Year (Rs. Mn)			
Gross Income	17,684.67	15,144.74	16.77
Net Interest Income	4,706.27	4,633.38	1.57
Total Operating Income	6,678.60	6,342.13	5.31
Operating Profit before VAT and NBT on Financial Services	2,451.93	2,278.20	7.63
Profit before Tax	1,875.46	1,794.94	4.49
Profit for the Year	1,390.50	1,251.70	11.09
Position at the Year End (Rs. Mn)			
Gross Loans and Receivables to Other Customers	111,351.50	98,509.79	13.04
Total Assets	138,501.69	129,451.08	6.99
Due to Other Customers (Customer Deposits)	107,193.03	91,456.41	17.21
Shareholders' Funds	10,669.89	6,872.15	55.26
Financial & Investor Ratios			
Net Interest Margin (%)	3.61	3.87	(6.72)
Return on Equity (%)	14.86	19.97	(25.59)
Return on Assets (%)	1.07	1.05	1.90
Cost to Income Ratio (%)	56.51	56.03	0.86
Earnings per Share (Rs.)	3.31	4.01	(17.46)
Net Assets Value per Share (Rs.)	24.11	23.29	3.52
Market Price per Share (Rs.)	15.70	20.00	(21.50)
Statutory Ratios			
Capital Adequacy (Basel III)			
Common Equity Tier I Capital Ratio (%) (Minimum Requirement - 5.75%)	11.38	N/A	N/A
Total Tier I Capital Ratio (%) (Minimum Requirement - 7.25%)	11.38	N/A	N/A
Total Capital Ratio (%) (Minimum Requirement - 11.25%)	13.53	N/A	N/A
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)			
Domestic Banking Unit (%)	23.25	28.03	(17.05)
Foreign Currency Banking Unit (%)	27.04	38.82	(30.35)
Liquidity Coverage Ratio (Minimum Requirement - 80%)			
Rupee (%)	208.84	163.62	27.64
All Currency (%)	195.36	230.21	(15.14)
Non Performing Advances Ratio			
Gross (%)	4.36	4.74	(8.02)
Net (%)	3.05	2.95	3.39



NET GAIN FROM TRADING

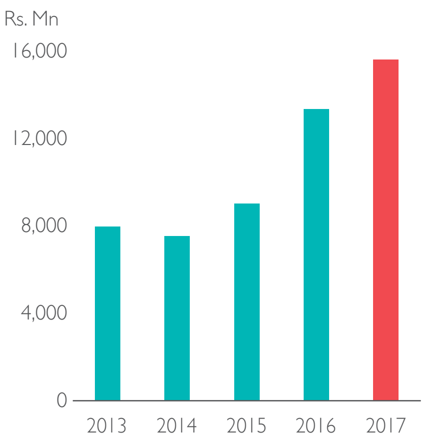


SHAREHOLDERS' FUNDS

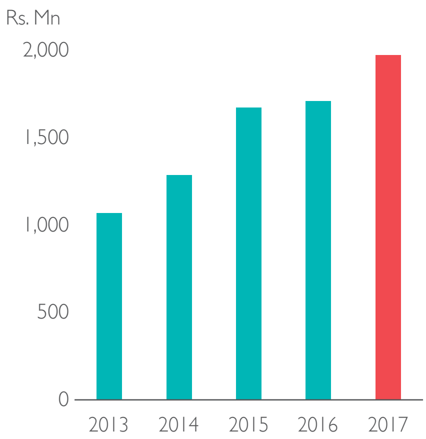


CARD RELATED COMMISSION INCOME

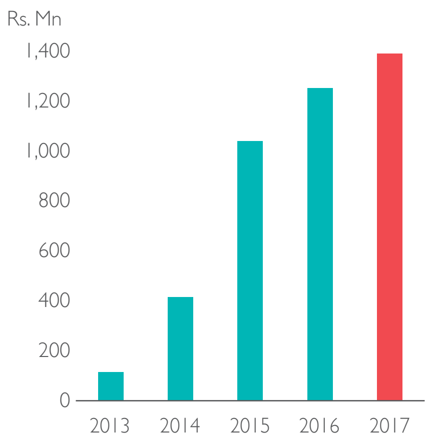
INTEREST INCOME



NON INTEREST INCOME



PROFIT FOR THE YEAR (PAT)



GROSS INCOME

Rs.17.68Bn

Increased by 16.77%

GROSS LOANS AND RECEIVABLES TO OTHER CUSTOMERS

Rs.111.35Bn

Increased by 13.04%

DUE TO OTHER CUSTOMERS

Rs.107.19Bn

Increased by 17.21%

Accomplishments of the Year

1. FASTEST GROWING COMMERCIAL BANK

Yet again we received the coveted global award from the London based, Global Banking & Finance Review.

2. FASTEST GROWING RETAIL BANK IN 2017

Retail is our forte and we received the global recognition we truly deserve.

3. OUR BANKING EXCELLENCE SHINES AT NATIONAL BUSINESS EXCELLENCE AWARDS

We reached the pinnacle in banking excellence at the National Business Excellence Awards 2017 - Sri Lanka's benchmark business excellence competition organised by the National Chamber of Commerce of Sri Lanka for the 3rd consecutive time and we remain humbly proud of our achievement.

4. OPENING OF 83RD BRANCH AT DANKOTUWA

We remain strong believers in our brick-and-mortar strategy to get closer to our customer so that we can understand them more.

5. MOST USER-FRIENDLY MOBILE BANKING APP IN TOWN

We take pride in offering the most user-friendly mobile banking app in town and our revamped internet banking facility brings our customers a fresh virtual banking experience.

6. TREMENDOUS RESPONSE TO OUR CASH CALL

Our Rs. 2.06 billion rights issue to raise capital from shareholders was snapped up demonstrating the trust they place in us and on our way of doing things.

7. OUR PARTNERSHIP WITH SINGER WIDENED OUR REACH

Our MoU with Singer Sri Lanka - Sri Lanka's largest consumer durables retailer - offers the best fit with our fastest growing credit card base. Now, our credit cardholders have over 500 access points to make their credit card payments.

8. PARTNER IN SRI LANKA'S JOURNEY TOWARDS DIGITAL PAYMENTS

In 2017 LankaClear, Sri Lanka's national payment gateway provider recognised the Bank's commitment and excellence in using innovative technology to promote digital transactions in Sri Lanka at Lankapay Technovation Awards.

9. DEDICATED CENTRE FOR PRIVATE BANKING AT WTC

A dedicated centre at the World Trade Centre was opened to offer specialised financial and investment advisory services to our High Net - Worth customers at their convenience at one of the most prime locations at Colombo.

10. WE RE-LAUNCHED ‘MITHURU MAX’ CHILDREN’S SAVINGS ACCOUNT

One of our flagship children’s savings accounts was re-launched as ‘Mithuru Max’ with enhanced features and a host of valuable gifts.

11. PARTNERSHIP WITH ‘SMALL WORLD FINANCIAL SERVICES’

We continued to expand our network of remittance partners every year and addition of Small World Financial Services was another milestone in this journey.

12. SECURING FOREIGN FUNDING LINE FROM GCPF

We continued our commitment to contribute for a greener tomorrow by reaching out to international green funding lines from DFI’s. The Bank signed up for a USD 13 million facility with global Climate Partnership Fund in 2017.

13. OUR PEOPLE DEVELOPMENT EFFORTS CROWNED

The quality and the quantity of our people development activities only grew higher and these efforts were amply recognised with a Gold Award by Sri Lanka Institute of Training & Development in 2017.

14. OPENING OF TWO BRANCHES IN A SINGLE DAY

Further extending our footprint, we opened two branches at Hikkaduwa and Weligama on 21st December 2017, setting the stage for a robust branch opening drive.

15. OUR DEPOSITS & ADVANCES BOOKS CROSSED RS.100 BILLION MARK

Our deposit and loan books crossed Rs. 100 billion, a key milestone for both portfolios to end the year with a deposit base of Rs. 107.19 billion and loan book of Rs. 109.14 billion.

Awards & Accolades

Victorious in our pursuit of excellence year after year...

Fastest Growing Commercial Bank
Sri Lanka 2014

Fastest Growing Commercial Bank
Sri Lanka 2015


Fastest Growing Commercial Bank
Sri Lanka 2016
Fastest Growing Retail Bank
Sri Lanka 2017
Fastest Growing Commercial Bank
Sri Lanka 2017

Awards & Accolades

Winning spirit...

FASTEST GROWING COMMERCIAL BANK IN SRI LANKA

Yet again Pan Asia Bank emerged as the, 'Fastest growing commercial bank in Sri Lanka' for the fourth consecutive year in 2017 by the London based Global Banking & Finance Review.

Global Banking & Finance Review annually recognises outstanding achievements in the financial services industry. The award reflects the innovation, achievement, strategy, progressive and inspirational changes taking place within the global financial community.

What makes this award special is the fact that Pan Asia Bank is the only bank in Sri Lanka to have been awarded four times in a row with an international accolade from Global Banking & Finance Review for its consistently better performance every year.

Pan Asia Bank has earned a strong reputation as a bank that has consistently offered true value added products to the Sri Lankan market over the years. Understanding customer needs and offering products and services to fulfill such gaps have been the hallmark of the Bank.

THE FASTEST GROWING RETAIL BANK IN SRI LANKA

Meanwhile Global Banking & Finance Review also adjudged us as the, 'Fastest Growing Retail Bank in Sri Lanka'.

We become humbly proud of the recognition we received because retail was the space we excelled in for over two decades and therefore we believe this award truly reflects who we are and what we really do in the Sri Lankan market place.

In fact our retail business has been growing at a steady pace since 2014 through different economic cycles and this segment even filled the lacuna created by some of the other business units of the Bank in certain times making this award truly deserving for us.

Our retail business led by consumer loans and credit cards which is driven mainly by our Central Sales Unit offers an industry best practice case study for the rest.

NATIONAL BUSINESS EXCELLENCE AWARD

For the 3rd consecutive year, the Bank was recognised for its excellence in banking business at the 2017 diet of the National Business Excellence Awards.

The Bank received the merit award in the banking sector which comprised of several larger and older contenders in the industry.

National Business Excellence Awards is Sri Lanka's benchmark business excellence awards competition organised by the National Chamber of Commerce of Sri Lanka. During the selection process of this event, all applicants undergo a rigorous evaluation by two panels of judges before being nominated for an award.

GOLD AWARD IN RECOGNITION OF OUR PEOPLE DEVELOPMENT EFFORTS

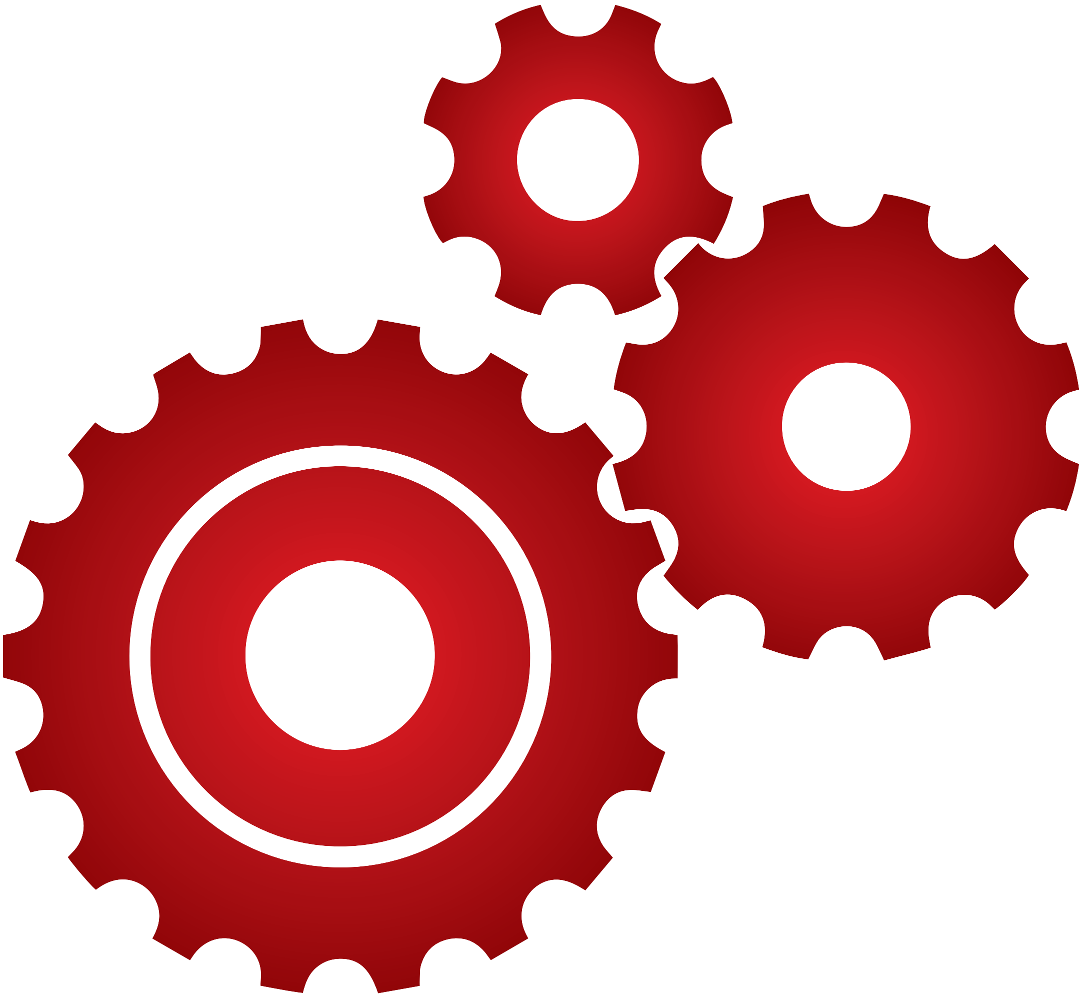
Pan Asia Bank's efforts and activities in developing its people was recognised at the highest level when the Bank was awarded with the Gold award at the SLITAD People Development Awards 2017.

This was the second consecutive time the Bank's results driven training and development activities were recognised by the Sri Lanka Institute of Training & Development (SLITAD).

The evaluation criteria for the award comprised of 10 main areas namely; business strategy, learning & development strategy, people management strategy, leadership & management strategy, management effectiveness, recognition & rewards, involvement & empowerment, learning & development, performance measurement and continuous improvement.

Further, SLITAD assessed the deliverables of the organisation in the above criteria's a through a comprehensive on site study.

Pan Asia Bank's achievement in People Development Award 2017 is a testament to its commitment to achieve excellence in all the aforementioned areas.



MANAGEMENT INFORMATION AND EXECUTIVE REVIEWS

Chairman's Review

Dear Shareholder,

It is my pleasure to present the Annual Report for the year ended 31st December 2017. Pan Asia Bank has delivered a resilient performance in an extremely challenging year, recording a profit of Rs. 1.39 billion for the year ended 31st December 2017 which is 11.09% over the previous year. However, we have undertaken broad based change and reforms enhancing our ability to compete effectively and deliver sustainable value to our stakeholders which is expected to bear fruit in the year that has commenced.

The year commenced with the appointment of veteran banker, Nimal Tillekeratne as Director/Chief Executive Officer who is leading a wave of change in the Bank's policies, risk management and performance management processes to ensure that the Bank builds resilience to operate seamlessly. The Board and the Board committees have provided guidance, reviewed and approved refined policy frameworks and monitored implementation of these reforms which has been at the top of the Board's agenda.

CONTEXT TO PERFORMANCE

The business environment remained challenging throughout 2017 as indicated by GDP growth which moderated to 3.3% in the 3rd quarter of 2017 as alternate floods and drought significantly dampened performance of the agriculture sector. Industry sector growth of 4.5% in the 3rd quarter reflects the underperformance of the Food, Beverages & Tobacco subsector despite increased activity in construction and manufacturing sectors. The services sector was the only sector to maintain its growth rate of 4.2% in 2016 and through the first 9 months of 2017 supported by performance of the financial services, telecommunication and insurance sub-sectors.

The challenges faced during the year are reflected in our performance with modest profit growth of 11.09% and an increase of 6.99% in total assets.

The Monetary and Fiscal policies remained relatively tight during the year leading to higher interest rates and taxes as the government focused on management of a widening trade and budget deficit and rising inflation. However, this also had an impact on private sector investment which declined during the first 3 quarters of the year. Exports increased during this period supported by strong global growth although this was offset by the increase in imports due to food supply interruptions stemming from underperformance of the agriculture sector and increased oil prices. Remittances from migrant workers also declined for the second consecutive year reducing foreign currency inflows although earnings from tourism increased. Consequently, depreciation of the Sri Lankan Rupee vis a vis the US Dollar was curtailed to 2.3% for the year. Interest rates moved up during the year deterring private sector investment as returns on fixed income securities remained attractive. While interest rates are expected to remain at current levels, inflation is expected to move towards mid single digits as CBSL implements its Flexible Inflation Targeting policy framework. We expect the operating environment to remain challenging in the coming year as well as the country's debt repayments fall due.

Growth of the Banking sector was driven by loans and advances which maintained the pace of growth in line with the previous year. Deposit growth was encouraging supported by the high interest rates that prevailed during the year. However, Non-Performing loans increased across the sector during the year reflecting the moderation in economic growth which impacted a number of industry sectors. Capital adequacy of the sector improved during the year as borrowings declined and the sector raised capital by way of equity and debentures during the year.

OUR PERFORMANCE

The challenges faced during the year are reflected in our performance with modest profit growth of 11.09% and an increase of 6.99% in total assets. Importantly, with the rights issue of Rs. 2.06 billion and retention of profits Rs. 1.39 billion we met the regulatory requirement of Rs.10 billion Total Common Equity Tier I capital which has strengthened the Bank's capital structure which in turn reflected in Capital Adequacy Ratio. Moreover, oversubscription of the rights issue reflects our shareholders' confidence in our ability to deliver sustained growth and profits. We also remain well above the capital and liquidity requirements under the Basel III accord which came in to effect on 1st July 2017 and remain confident of meeting the requirements when the accord comes in to full effect on 1st January 2019.

Increased non-performing loans witnessed across the sector necessitated a more cautious approach to credit growth during the year resulting in moderated growth of the loan portfolio. Deposit growth was 17.21% which was below industry growth rates but acceptable given the circumstance that prevailed during the year. As internal issues were largely addressed effectively in the first

PROFIT FOR THE YEAR
Rs.1.39Bn
Increased by 11.09%

TOTAL ASSETS
Rs.138.50Bn
Increased by 6.99%

SHAREHOLDERS' FUNDS
Rs.10.67Bn
Increased by 55.26%

Chairman's Review

three quarters, portfolio growth and deposit growth picked up pace in the 4th quarter affirming our growth potential.

Pan Asia Bank signed a landmark US $ 13 million funding arrangement with Global Climate Partnership Fund (GCPF) which includes the German Federal Environment Ministry, KFW, IFC and the Ministry of Foreign Affairs of Denmark amongst its key investors. We have already received US $ 7 million of this supporting for the green lending business of the Bank.

LEADERSHIP & GOVERNANCE

We welcomed Mr. Aravinda Perera to the Board who brings considerable expertise in banking having served at the helm of Sampath Bank PLC for many years. Mr. Perera was appointed to the Board in August, 2017 while the Deputy Chairman Mr. Harris Premaratne retired in January 2018 on reaching the maximum age for a director of a Bank. Retirement of our former Chairman Mr. Eshana De Silva led to my taking over his mantle in July 2017.

The Board has provided guidance and reviewed progress on the organisation wide strengthening of systems, processes and controls which has been a priority in 2017. Reforms as well as our action to make things right with our staff, customers, regulators among other stakeholders are detailed in CEO's statement. Significant progress has been made and we continue to work with the management to deliver sustainable growth to our stakeholders. Accordingly, succession planning and linking performance to remuneration were areas reviewed by the Board and proposals are under consideration for required changes in these two key areas. Importantly, we have also strengthened our oversight and governance capabilities, results of which are becoming visible both in our financial performance and other areas.

BRIGHTER PROSPECTS

A strengthened capital structure and an improved organisation culture, systems and processes enables us to focus on growth in 2018. Allocation of capital to growth opportunities in the market will be a priority to ensure optimal use of funds. We are formulating strategies to deliver on the requirement of Rs. 20 billion in Total Common Equity Tier I capital by end of year 2020 which we propose to meet largely from our profits.

Following the successful engagement with GCPF, we will continue to engage with global financiers to develop new sources of funds and to strengthen our medium term fund base. We remain optimistic about our future growth opportunities as there are opportunities for growth in the years ahead to drive organic growth in your Bank. Mega projects which are underway will provide impetus to growth in the country while the uptick in the pace of global growth is expected to strengthen demand in key export markets. Our customer centric approach will drive growth in our customer base - consumer deposits, loans to retail, small and medium enterprises and corporates.

we are well-positioned to serve the growing and emerging financial requirements of our clients. In addition, we believe we can continue to gain share in many markets and, over time, add new, relevant products. This can drive organic growth for years.

The signs are such that the growth will obviously be faster in the Sri Lankan economy than in the previous year and we are well-positioned to serve the growing and emerging financial requirements of our clients. In addition, we believe we can continue to gain share in many markets and, over time, add new, relevant products. This can drive organic growth for years.

After many years, Sri Lanka's economy has begun to show some benign macro-economic conditions with the interest rates starting to ease, the inflation pressures coming down and the reserves stabilising. But this is not without the down side risks. While these conditions are largely expected to bode well for the banking sector as it could stimulate

GROSS INCOME

demand for new credit, the future outlook for macro-economic fundamentals remain largely bleak given the government's external debt hangover.

According to Moody's, there are as much as US $ 14 billion in external debt repayments during 2019 - 2022 making liability management extremely challenging. Some economists - both local and international - have predicted increased interest rates due to the debt hangover which could derail the growth in credit.

We have diversified our business building resilience required to deliver consistently across forecast stressed economic conditions without delivering a major setback to the performance. Broad basing our portfolio across business segments and reducing concentrations was a key initiative which is expected to support our growth and performance in the year that has commenced.

The management also took a complete review of our regional set up and strengthened the regional management in order to effectively penetrate in to retail, SME and corporate businesses across the island. Accordingly, I expect your Bank to strengthen performance in 2018 with growth in selected sectors of the economy coupled with judicious management of assets and liabilities.

APPRECIATION

Ultimately, our people are our most important assets - and they are exceptional. Their knowledge, their capabilities and their relationships drive our growth, technology and innovation. I take this opportunity to thank the team ably led by the CEO Mr. Nimal Tillekeratne for their determination and hard work in what proved to be a challenging year. The Board joins me in extending our appreciation of the guidance provided by the officials of the Central Bank of Sri Lanka.

To all our customers, business partners who remained with us through good times and challenging times, I express my sincere appreciation of your confidence and look forward to continuing our journey together. In closing, I wish to acknowledge the contributions made by my fellow Board members in guiding the direction of the Bank and thorough deliberation of matters set before the Board.

Dimuth Prasanna
Chairman

Colombo, Sri Lanka
16th February 2018

Chief Executive Officer's Review

Nimal Tillekeratne
Director / Chief Executive Officer

Dear Stakeholders,

In my first annual review to our stakeholders, I am pleased to have this opportunity to share my thoughts on Pan Asia Bank - our accomplishments, challenges and decisive steps to lay a firm foundation on which the Bank could build on to the future.

In April 2017, when I took over as the Chief Executive Officer to steer this Bank, I soon realised its tremendous potential and I knew with just correct guidance and stewardship this Bank could become a force to reckon with in a very short span.

Now, I am fully committed in guiding our Bank forward at this critical moment in our 22 year history to become an indispensable partner to many a lives to fulfill their dreams and ultimately to become a significant contributor to the national economy within a few years.

I want to start by stating clearly that during the last 12 months the foundation of our Bank has been made further stronger. Despite our current challenges, I believe that our underlying business strengths and our focus on managing for the long term will continue to benefit us as we move forward.

We have meaningful opportunities, as you will read later in my statement, and we will be prepared to deliver for all of our stakeholders. As always, we take our commitment to our staff, customers, regulators, shareholders, and communities very seriously, and whilst managing with those constituents in mind.

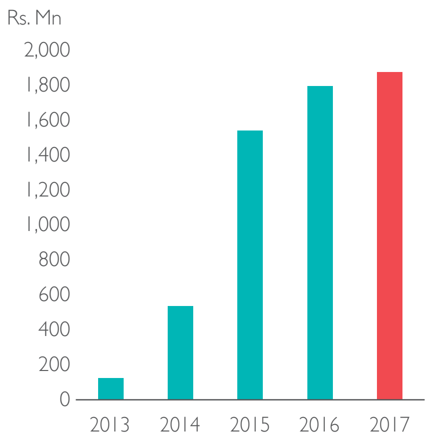
Our challenges for 2017 were probably the toughest in the history of the Bank; suspension of our primary dealer unit, slowdown in growth amid rising non-performing loans and slide in our low cost fund base took a toll on our performance.

We never felt shy to take these issues head on and I am happy to say that the steps we took thus far had turned the tide in our favour which will be seen in our accelerated financial performance from the last quarter. In fact, these obstacles tested our strength and resolve resulting in us emerging stronger than ever.

We are fully committed to making things right for our stakeholders and creating continuous value for them. This is a long-term effort, one that requires commitment, patience, and resolve.

Our top priority during 2017 was to clean our house and to re-build trust through a comprehensive plan that makes things right for our staff and customers while ensuring we remedy the root cause of our problems to strengthen the fundamentals where a stronger Bank could be built for the future.

PROFIT BEFORE TAX



MAKING THINGS RIGHT FOR OUR STAFF & CUSTOMERS

2017 was a re-set year for the Bank in many aspects. We are fully committed to making things right for our stakeholders and creating continuous value for them. This is a long-term effort, one that requires commitment, patience, and resolve. As an initial step, I had to rebuild our team, particularly at the top to build a cohesive and a closely knitted unit who share the same dreams and values. I must confess that this is no easy task as some might have got hurt in this process.

When I took over, we had perhaps the highest staff turnover level in the industry - a spill gate which needed swift controls to bring down to an acceptable level. No matter how pragmatic we are in our decisions and how comprehensive our plans are, they will have only little value unless our team on the ground remains wonky. Hence, we addressed this issue with highest priority by way of closing the mismatch between the goals and objectives of the Bank with that of the individual staff members'.

A cornerstone of these efforts was the development of a well structured performance appraisal system with reward based key performance indicators directly linked to the performance.

We did not stop at that. We streamlined multiple policies relating to our people drawing a closer link between our talent acquisition policy, a transparent promotion policy paving the way to build the next level of leaders who can take the Bank forward. In this respect, the Bank looked for outside candidates only when it could not find the fitting talent inside the Bank because we give planning for succession a significant importance in our corporate strategy.

> Our goal is to generate consistent financial performance over time and through cycles while maintaining best-in-class shareholder returns. We believe we can achieve this result with the foundational elements described in this review: a diversified customer-centric business model; conservative risk discipline; and a strong balance sheet.

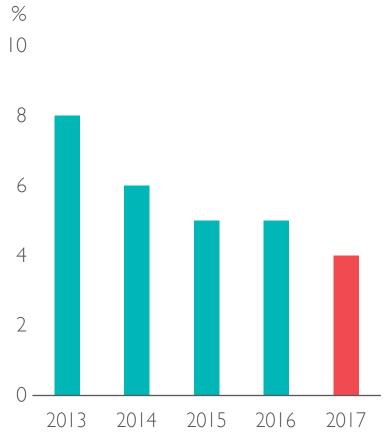
Our management is now in the process of devising a plan to provide a clear and a faster career path for our already identified talent pool to become the future leaders. We, in fact walk the talk on succession planning as our next layer of leaders are slowly being groomed to take tomorrow's leadership roles when the need arises. Nowadays you will find that our training faculty is on the ground more often than not because they are busy,

Chief Executive Officer's Review

Our staff continued to focus on serving and meeting the financial needs of our customers. Because of their commitment and the confidence our customers continue to place in us, there are many Sri Lankan households that rely on Pan Asia Bank to help them succeed financially.

up skilling our majority young staff in key roles and are transforming them in to a future ready workforce.

GROSS NON PERFORMING ADVANCES RATIO



In a latest development, we have begun conducting certification program to equip our officers with the required job skills. We are expecting to extend this certification program to build in depth knowledge where specialised job skills are required.

As we age, unlike any other bank, we remain ever younger because over 58% of our staff is below 30 years. As we bring fresh blood every year, we find our culture evolving in every 3 to 4 years making our change journey a natural one than an imposed one as in many other organisations.

Our open day for the school leavers and other aspirants of a career in banking, conducted at the BMICH in last October saw thousands of applicants walking for interviews through the two days demonstrating we remain a preferred place to work. As we are aware of the gap in the aspirations between the today's millennial workforce and the baby boomers which I and many of my fellow corporate management members belong to, we have brought in several changes in to our HR policies to build cohesiveness and cooperation between the two generations at work leading to more balanced and better business decisions.

Further we will soon introduce flexible working hours in to wherever that can be applied to overcome the daily congestion on roads so that they become mentally prepared to deliver more to the Bank without wasting precious man hours on the road. While this is only a single step, we are not hesitant to take steps to bring the much needed work-life balance in our staff which will ultimately lead to mentally free and physically fit workforce across our network to serve our precious clientele better.

I firmly believe that these steps will give us the flexibility to tailor our approach to steer the Bank on a formidable path by winning the hearts of new generation employee as well as the consumer.

Today, we are looking beyond a hard-core banker who encompass a skill-set from technology, modernisation, digital, business resiliency and risk mitigation experience and this is why we have designed training and development programs to make our people future ready because today's skill may become irrelevant tomorrow, Such is the pace of technological driven change.

Needless to say, nurturing a culture of innovation and digital transformation is paramount for growth as a result of rapid innovation and digital disruption. Hence I do believe we have to transcend what our competitors do in order to stay relevant. This is why we want to develop excellent strategists and strong leaders in our staff - young and old - who has the audacity to take challenges head on to take this bank to greater heights within a few years.

OUR CUSTOMERS

Even as we faced many challenges in 2017, our staff continued to focus on serving and meeting the financial needs of our customers. Because of their commitment and the confidence our customers continue to place in us, there are many Sri Lankan households that relying on Pan Asia Bank to help them succeed financially.

Our customers depend on Pan Asia Bank's branch-based banking services, online and mobile banking services, retirement financial assistance, guidance for small and medium enterprises and the banking services to support the growth in Sri Lankan corporates.

They also rely on us to receive a safe return on their hard earned savings which has been amply evident from the trust they placed on us during last year. The tremendous response received in to our 4 month special deposit product speaks volumes of this trust. This product closed a widely felt vacuum in the market for a higher return product with a short tenor - a right mix for a widespread uncertainty over the future interest rate direction.

Our customers also rely on us to achieve sustainable home ownership. The low and moderate income households took advantage of our new home loan product with three tier interest rate structure which begins from a low interest rate as low as 13.5%.

With digital account management and payment tools, we help customers manage their financial lives, wherever and however they want. For example, we developed our state-of-the art mobile banking application for Android and iOS, which launched last year being it one of the most convenient and user friendly applications in the market.

Also in 2017, clients of Pan Asia Bank benefitted from a redesigned, secure website that made their transactions and other financial information about their financial assets as convenient as they could be.

OUR SME THRUST GREW STRONGER

We always place our thrust in the Small and Medium Enterprises and we know that access to capital is greatly valued by small business owners.

This is why we are in the process of introducing new products and digital applications for small businesses to provide them with tools and resources that empower small business owners to navigate the credit journey with confidence.

The center part of Pan Asia Bank's focus on expanding small business access to capital, provides small business owners with financing options, tips on the application process, and credit management. If our small business clients develop into business banking and middle market or corporate banking clients, we remain always ready to provide them with a seamless line of service.

OUR CORPORATE FOCUS GAINED STEAM

In fact, one of the crucial shifts that we consciously made in the latter part of 2017 was to slightly change our positioning in the market from a pure retail and consumer lender in to a bank which assists large scale corporates, both as a risk mitigation policy as well as re-calibrating our portfolio mix which was hitherto overly tilted towards retail banking.

By this way, we are confident that we would become a significant contributor to the national economy by way of touching many a lives and enterprises of all size and nature to hold assisting them to reach their potential. In short, our commitment to our customers is as strong as it has ever been.

FINANCIAL REPORT CARD

As difficult as 2017 was in many respects, the Bank managed to deliver a modest financial performance for our shareholders.

Through a balance mix of net interest income and non-interest income, your Bank generated Rs. 17.68 billion in revenue in 2017 registering a growth of 16.77% from 2016 and after tax profit of Rs. 1.39 billion and earnings per share of Rs. 3.31. Our before tax profit was Rs. 1.88 billion, up by 4.49% from 2016.

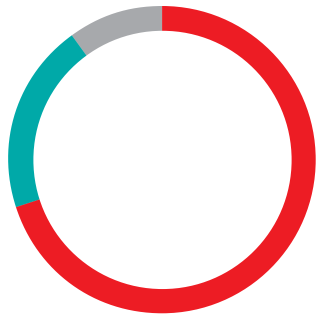
We recorded this performance amid the challenges of higher interest rates remained during most part of the year, relatively lower demand for credit and sluggish growth in the economy.

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

Albeit some slowdown in our asset book growth, the core building blocks of long term value creation - deposits, loans and capital - continued to grow during 2017. By the year end the total deposits stood at Rs.107.19 billion, up by 17.21% from 2016 and the loan portfolio grew by 13.04% to Rs.111.35 billion.

Much of this growth came during the final quarter in 2017 reflecting some early results from the bold reforms we undertook during the preceding two quarters. Hence we remain fully confident and convinced that the same growth momentum witnessed during the final quarter would continue during this year generating value to all our stakeholders.

COMPOSITION OF TOTAL OPERATING INCOME



Net Interest Income	70%
Net Fee & Commission Income	20%
Other Income	10%

What hurt us the most was the weakened asset quality and the resultant loan loss provisions which we had to absorb mostly coming from the poor credit decisions taken during the past.

As a consequence the Bank had to book a total impairment charge of Rs. 494.39 million for the year 2017 although it is marginally below the previous year.

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

From the capital standpoint we ended year 2017 with Total Common Equity Tier I capital of Rs. 10.04 billion and a Common Equity Tier I Capital Ratio of 11.38% well above our regulatory minimum of 5.75%. The Total Capital Ratio ended the year with 13.53% against the regulatory minimum of 11.25%.

WE DELIVERED ON OUR PROMISE TO REGULATOR

As promised, on 31st December 2017 we met and surpassed the Rs.10 billion regulatory minimum Total Common Equity Tier I capital specified by Central Bank of Sri Lanka.

Chief Executive Officer's Review

According to the capital augmentation plan we submitted two year ago, we raised over Rs. 2 billion in March 2017 via a rights issue which was oversubscribed and our internal capital generation helped propel our capital base beyond the regulatory minimum.

Now we are geared to meet our next milestone in capital, which is to double our Total Common Equity Tier I capital base from the current Rs.10 billion to Rs.20 billion within a span of 3 years.

With a firm foundation being laid to take off much faster from this year, we remain confident that our financial performance is going to be much higher than in the past, hence bulk of the fresh capital could be generated internally.

The encouraging financial performance in the fourth and final quarter in 2017 and continuing so far in to 2018 acts as a bellwether of what is to come in the ensuing few years.

Apart from it, our Basel III compliance remains intact with the Bank staying ahead of the accord's interim targets and it will be only a natural journey towards meeting the 1st January 2019 targets by when the Basel III rules come in to full effect.

BRICK & MORTAR IS HERE TO SAY

While there is a heavy noise on financial technology and digital banking channels disrupting the traditional financial services space, my honest opinion is I haven't still seen any game changing digitisation coming in to the banking sector in Sri Lanka.

What we see mostly is millions being spent to replace a human or some function with a machine. These machines were there even years ago, hence these cannot be considered as digitisation.

What is currently happening in this country is the fact that money being spent in huge amounts unnecessarily, not knowing what the end result is going to be. Obviously digital channels will help the Bank to operated at low cost but certainly not in the near future given the size of the investment required.

We don't need to rush for digitisation. Let it be a slow journey. Pan Asia Bank would take about 5 years to heavily invest in fintec because we don't have to be unnecessarily hurry as we already have talented tellers in place and the ATMs, CDMs and Internet banking do the rest.

My priority is digitise the processes inside the Bank making it a business enablement tool than a customer intimidating tool to ensure that our people would do things that really matter and leave less value adding functions for a machine or an automated process.

I still believe brick & mortar banking is here to stay and the human element cannot be replaced easily. Specially in our country, people want to closely associate with a human being in getting their transaction done than talking to a machine.

There are a lot of people who like to go to a bank and spend time there until their requirement is fulfilled where time isn't a matter for them. There is a segment who wants a quick response, for which a digitisation is provided.

In any case, even with the fintec reaching mass scale, the real servicing of the customer will continue to happen inside a branch.

OUR COMMUNITIES & ENVIRONMENTAL SUSTAINABILITY

A long-standing principle of our Bank is that we are only as strong as the communities we do business with.

In 2017 we could not do much to our communities around us but we remain committed to recognise the societal issues which need our assistance in overcoming them during this year.

Hence we will do things, not for the purpose of publicity but will do things which are closer to our heart without any form of advertising.

As part of our commitment to the environmental sustainability and to reduce the overall carbon footprint in all our activities, we took the initiative to establish a separate unit manned by equally passionate personnel to drive this agenda for the benefit of our generation and the generations to come.

It was recently reported that NASA researchers had ranked 2017 as the second warmest year since 1880 while NOAA scientists ranked it as the third-warmest. Both analyses show that the five warmest years on record all occurred since 2010.

Under such a scary scenario, as a responsible bank, we cannot look the other way from our responsibility to minimise the contribution of our activities to global warming which will only get warmer if we do nothing.

Hence our International Relations & Sustainability unit continuously seeks green lending opportunities and also attempts to match them with green financiers.
The US $ 13 million funding line we received in 2017 from the Global Climate Partnership Fund (GCPF) was a result of this sustainability focus.

Our staff is now seeking more energy saving and energy efficient projects such as renewable energy to disburse these funds to promote green lending.

The Bank further developed a Social and Environmental Management System (SEMS) policy which will carry out a comprehensive impact assessment of future loans on the environment. While this is currently at a preliminary stage when the SEMS policy comes in to full implementation, the Bank will give out loans where the social and environmental implications are minimal or managed well within accepted thresholds.

It will also offer technical support to companies where possible for such implementations. While assessing its loans on social and environmental parameters, the Bank continues to lend into renewable energy and energy efficiency projects with a special focus.

OUR SHAREHOLDERS

We recognise the commitment that you, as investors in our Bank, have made to Pan Asia Bank, and I want to assure you that we remain much focused on managing the Bank to maximise long-term shareholder value.

Our goal is to generate consistent financial performance over a time and through cycles while maintaining best-in-class shareholder returns. We believe we can achieve this result with the foundational elements described in this review: a diversified customer-centric business model; conservative risk discipline; and a strong balance sheet.

During the initial part of last year we took some conscious decisions to deliberately curtail the growth in our lending book with the sole objective of improving the quality of our book.

Meanwhile one of the first thing that I did since taking over was to establish a new unit to control new additions to non-performing loans which will act as a last line of defense before a facility goes down precipice.

While this unit will make the lives of our recovery officers much easy, this will give space for the recovery team to act swiftly and robustly on the hardcore NPLs which have been weighing on our Bank for so long.

Now we are accelerating our growth because we are confident that we have placed necessary tools & controls in to where they matter.

Further we knew that remaining as a pure retail lender is a high risk model and won't take the Bank too far. This is why we started serving larger corporate clients as well from the final quarter onwards, consciously diversifying our risks across a much balanced portfolio.

While we don't want to take the easy route of aggressive growth at the expense of our asset quality which becomes a liability of my successors, we are pursuing ourselves in a middle path becoming aggressive where we want to be and becoming conservative where we have to be.

If we consistently make choices and allocate capital in ways that support long-term success, we will continue to build a durable and successful Pan Asia Bank for years to come. Therefore it is my firm belief that our shareholders who have remained both patient and extremely supportive will only see the upside in their wealth within the next few years.

IN CONCLUSION

Our staff is working together as never before to put customers at the center of everything we do. Together, we are listening, learning, and taking the actions necessary to move our company forward.

The task ahead is not easy, but we are working hard, and I know we will be successful.

Our 5 year strategic plan which was developed through back-and-forth arguments between our team members has just got in to action and I am certain that the results are only going to be impressive. By the end of the 5th year, we will be in a much stronger position leaving behind a legacy of a successful journey.

The experience and knowledge of our Board of Directors have been instrumental in guiding us through the challenges we faced in 2017, and I appreciate their dedication to Pan Asia Bank.

I want to recognise and thank our former Chairman, Eshana De Silva who stepped down from the Board in July 2017 serving his full term in office and the present Chairman, Dimuth Prasanna who provides me with the much needed courage and the support in steering the Bank to the next level. Further I want to thank our Chief Financial Officer, Lalith Jayakody who held the fort until I took over providing the much needed leadership to the management.

I want to re-emphasise that we are committed to meaningful changes for our customers and our future. And I am very confident in the direction we are going as we make our Bank better and stronger for everyone.

Nimal Tillekeratne
Director / Chief Executive Officer

Colombo, Sri Lanka
16th February 2018

Board of Directors

DIMUTH PRASANNA
Chairman

SARATH RANGAMUWA
Deputy Chairman

HARRIS PREMARATNE
Deputy Chairman
(Retired w. e. f. 28th January 2018)

MOHAN ABEYNAIKE
Senior Director

TAKASHI IGARASHI
Director

TOYOHIKO MURAKAMI
Director

A. A. WIJEPALA
Director

JAYARAJA CHANDRASEKERA
Director

NIHAL KEKULAWALA
Director

ARAVINDA PERERA
Director

NIMAL TILLEKERATNE
Director / Chief Executive Officer

NAYANTHA FERNANDO
Company Secretary / Deputy General Manager

Board of Directors

DIMUTH PRASANNA
Chairman

Mr. Prasanna was appointed as the Chairman in July, 2017. He was appointed to Pan Asia Bank as a Director in May 2012 and as the Deputy Chairman in September 2016 upto 25th January 2017. He is the Managing Director of Wise Property Solutions (Pvt) Ltd and serves as a Director on the Boards of Royal Ceramics Lanka PLC, Royal Porcelain (Pvt) Ltd, Rocell Bathware Ltd, Country Energy (Pvt) Ltd, La Fortresse (Pvt) Ltd, Delmege Forsyth & Co. (Exports) (Pvt) Ltd, Delmege Insurance Brokers (Pvt) Ltd, Rocell Properties Ltd, Delmege Coir (Pvt) Ltd, Delmege Freight Services (Pvt) Ltd, Delmege Air Services (Pvt) Ltd, Lewis Brown Air Services (Pvt) Ltd, Hayleys Global Beverages (Pvt) Ltd. He has wide experience in various businesses & business management.

SARATH RANGAMUWA
Deputy Chairman

Mr. Rangamuwa was appointed to Board as a Director in August 2014 and was appointed as Deputy Chairman on the 29th January 2018. He is an experienced professional in Management, Finance, Credit and Marketing with over 27 years of senior management exposure having held key positions at strategic and operational levels. Mr. Rangamuwa is the Managing Director of Vallibel Finance PLC since it's relaunch and also serves as a Director of Hunnas Falls PLC and Finance House Consortium (Pvt) Ltd. He is a former Director of Mercantile Investments PLC and also had stints at Central Finance and Ernst & Young.

A Fellow of the Chartered Institute of Marketing (UK), Mr. Rangamuwa is a member of the Institute of Management Accountants (Australia) and has an MBA from the University of Southern Queensland. He is also a Fellow of the Sri Lanka Institute of Credit Management and holds a Post Graduate Diploma in Finance Administration from the Institute of Chartered Accountants of Sri Lanka and a Certificate in Foundation Studies (Sports) from Unitec, New Zealand.

HARRIS PREMARATNE
Deputy Chairman (up to 28th January 2018)

Mr. Premaratne was appointed to the Board on 19th January, 2017 as a Director and as the Deputy Chairman on 25th January, 2017. Mr. Premaratne has over 40 years of banking experience with commercial banks.
Mr. Premaratne is an Associate of the Chartered Institute of Bankers of London. He served as Senior Deputy General Manager of Commercial Bank of Ceylon and was the Managing Director of Sampath Bank PLC from 2009 to December 2011. He also served as the Managing Director of Cargills Bank Ltd. from 2012 to 2014. He held the position of Chairman of Sri Lanka Banks Association. He was the Deputy Chairman of Softlogic Finance PLC and serves on the Boards of Softlogic Holdings PLC, Asiri Hospitals Holdings PLC, Asiri Surgical Hospital PLC, Central Hospital Ltd. and Softlogic Capital PLC.

MOHAN ABEYNAIKE
Senior Director

Mr. Mohan Abeynaike is a Fellow of the Institute of Chartered Accountants of Sri Lanka. He was a Director of Sampath Bank PLC from 1995 - 2011.

Mr. Abeynaike was President of the Institute of Chartered Accountants of Sri Lanka and a member of the Securities and Exchange Commission of Sri Lanka. He has been Chairman/Director of several companies and public sector organisations. Mr. Abeynaike is currently Chairman of Asia Pacific Investments (Pvt) Ltd.

TAKASHI IGARASHI
Director

A Japanese national, Mr. Igarashi is an enterprising businessmen specialising in the re-structuring of unviable business, export of vehicles and heavy machinery from Japan, and development of IT systems. He served as the Chairman and Founder of ANZUK Legal Service based in Wellington.

He is the Chairman of Ramboda Falls Hotels PLC. He sits on the Boards of NWS Holdings (Pvt) Ltd, NWS Management Services (Pvt) Ltd and Prime Ocean Foods (Pvt) Ltd.

TOYOHIKO MURAKAMI
Director

Mr. Toyohiko Murakami is the Chief Executive Officer of Bansei Group Japan. Mr. Murakami has over 33 years of experience in managing various business fields consisting of Securities, Finance, Insurance and Real Estate.

Mr. Murakami has a Bachelors Degree in Law from Kyoto University, Japan. Mr. Murakami joined Bansei Securities Co., Ltd. in November 2005 and was appointed as the Executive Vice President in February 2006 and as President & CEO of the Company in June 2009. He is also the Chairman of Bansei Hoken (Insurance) Community Co., Ltd. which is a sister company of Bansei Securities Co., Ltd. Formerly, Mr. Murakami was with Zenkoku Hosho Co., Ltd. from November 2005 – February 2006 and as a Director of H.S. Securities Co., Ltd. from October 2000 to August 2005. He is the Deputy Chairman of Bansei Royal Resorts Hikkaduwa PLC and Chairman of Bansei Holdings LK (Pvt) Ltd, Director of Bansei & NWS Consultancy (Pvt) Ltd, Bansei Securities Capital (Pvt) Ltd and Vallibel Finance PLC.

A. A. WIJEPALA
Director

Mr. Wijepala was the Commissioner General of Inland Revenue Department during the period 2006 to 2008 and served as the Chairman of the National Insurance Trust Fund from 2008 to 2010.

He started his career in 1970 at the Inland Revenue Department, and was instrumental in opening five regional tax offices for the first time when he was the Commissioner General of Inland Revenue Department. He had organised tax seminars in the country to improve the level of tax compliance among the tax payers during this period.

He has participated in several programs in Advanced taxation in countries such as United Kingdom, France, Italy, Japan, Germany, Korea & Malaysia. He holds a Bachelors Degree in Arts (2nd Class) from the University of Ceylon, Peradeniya.

JAYARAJA CHANDRASEKERA
Director

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

NIHAL KEKULAWALA
Director

Mr. Nihal Kekulawala counts over thirty years in the banking profession. He has held senior positions at the Hatton National Bank (HNB) and played a strategic role in the diversification of HNB from Commercial Banking to Investment Banking, venture capital, stock broking and life/general insurance.

Mr. Kekulawala has served as the lead consultant and was responsible for setting up a Commercial Banking Operation in the Solomon Islands. He was appointed as the inaugural CEO of the bank. He presently serves on the Board of several public companies.

Mr. Kekulawala is a Fellow of the Institute of Chartered Accountants UK and Sri Lanka, Fellow of the Chartered Institute of Bankers in England and has an MBA from the University of Manchester.

ARAVINDA PERERA
Director

Mr. Aravinda Perera counts over 30 years in the Banking sector and functioned as the Managing Director of Sampath Bank PLC from 1st January 2012, until his retirement in September 2016. Presently he is the Managing Director of Royal Ceramics Lanka PLC and Chairman of Singer Finance (Lanka) PLC. He is a Director of Lanka Bangla Finance Ltd in Bangladesh, Hayleys PLC, Hayleys Industrial Solutions Private Ltd, Fentons Ltd and Hayleys Advantis Ltd.

He is a former Director of Lanka Financial Services Bureau, Credit Information Bureau of Sri Lanka and Lanka Clear (Pvt) Ltd., Colombo Stock Exchange and the former Chairman of Siyapatha Finance PLC. 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 was also the Co-chair of National Agenda Committee on Finance and Capital of the Ceylon Chamber of Commerce and member of National Payment Council.

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

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

NIMAL TILLEKERATNE
Director / Chief Executive Officer

Mr. Nimal Tillekeratne counts over 40 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 Post Graduate Diploma in Business Statistics from University of Moratuwa. He started his career in banking with Commercial Bank of Ceylon PLC and was the former Senior Deputy General Manager of Sampath Bank PLC and was also in the Board of Sampath Information Technology Solutions Limited, a fully owned subsidiary of Sampath Bank.

He was also involved in setting up business processes at Cargills Bank for a short period and also was the Senior Deputy General Manager of Seylan Bank PLC overseeing bank's Core operations, Trade Services, Remittance Business, Alternate Banking and Self Service Channels, Process digitisation efforts, in addition to setting up the Bank's branch expansion ambitions on course. He views process digitisation and automation as the way forward for quality customer service, cost control and growth in retail banking sphere. His exposure to various disciplines in the Banking industry is quite wide spread having headed Operations, Branch Credit, Commercial Credit, Credit Card Business, Collections at various banks locally and overseas.

NAYANTHA FERNANDO
Company Secretary / Deputy General Manager

Nayantha is an Attorney-at-Law with over 27 years of experience. She joined the Bank as the Company Secretary in 1998 and is serving the Bank for almost two decades.

Corporate Management

Left to right:

1. **NIMAL TILLEKERATNE**
   Director / Chief Executive Officer
2. **S. UMAKANTHAN**
   Deputy General Manager - Credit Monitoring
3. **RICHIE DIAS**
   Deputy General Manager - Treasury
4. **LALITH JAYAKODY**
   Deputy General Manager - Chief Financial Officer
5. **NAYANTHA FERNANDO**
   Deputy General Manager - Company Secretary
6. **NALEEN EDIRISINGHE**
   Deputy General Manager - Branch Credit
7. **NALAKA WIJAYAWARDANA**
   Deputy General Manager - Marketing and Personal Banking
8. **LALITH J. FERNANDO**
   Deputy General Manager - Chief Risk Officer
9. **K. L. G. PRADEEP**
   Deputy General Manager - Commercial Credit

10. JEREMY DE ZILVA
Assistant General Manager - Internal Audit

11. VARUNI EGODAGE
Assistant General Manager - Legal

12. ROHITHA AMARAPALA
Assistant General Manager - Human Resources

13. CHANDRIKA RANAWAKA
Assistant General Manager - Corporate Banking

14. HARSHA KURUKULASURIYA
Assistant General Manager - Operations and Credit Administration

15. SHIYAN PERERA
Assistant General Manager - Retail Assets

16. UPALI DHARMASIRI
Assistant General Manager - Recoveries

17. ARUNA RATHUGAMAGE
Assistant General Manager - Chief Information Officer

18. ROHAN THAMBIRAJAH
Assistant General Manager - Branch Credit and Deposit Mobilization

Corporate Management

NIMAL TILLEKERATNE
Director / Chief Executive Officer

Nimal Tillekeratne counts over 40 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 Post Graduate Diploma in Business Statistics from University of Moratuwa. He started his career in banking with Commercial Bank of Ceylon PLC and was the former Senior Deputy General Manager of Sampath Bank PLC and was also in the Board of Sampath Information Technology Solutions Limited, a fully owned subsidiary of Sampath Bank.

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S. UMAKANTHAN
Deputy General Manager - Credit Monitoring

Umakanthan is a versatile and pragmatic banker, counts over 34 years of experience in the Banking Industry at Operational and Tactical Management to Strategic/ Corporate Managerial levels. He served at HNB for 15 years prior to joining Pan Asia Bank in 1998. He holds an MSc in Management from the University of Sri Jayewardenepura. He is a Fellow of the Institute of Bankers, Sri Lanka and also holds a Postgraduate Diploma in Assets and Liability Management from the Post Graduate Institute of Management, University of Sri Jayewardenepura.

RICHIE DIAS
Deputy General Manager - Treasury

Richie joined Pan Asia Bank from Barclays Bank, Dubai where he held the position of Head of Treasury Middle Office. He has also served Seylan Bank PLC as Assistant General Manager - International Financial Services and prior to that Grindlays Bank Limited as FX Dealer. He has 37 years of banking experience and has developed skills among others, in Fundamental Principles of Market, Liquidity and Operational Risk Management techniques. He holds a Post Graduate Executive Diploma in Bank Management from the Institute of Bankers, Sri Lanka and an MBA from University of North West, USA. He is a Member of Association of Professional Bankers, Sri Lanka.

LALITH JAYAKODY
Deputy General Manager - Chief Financial Officer

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

He has an excellent knowledge and skills in Auditing, Strategic Planning, Asset and Liability Management, Finance and Tax Operations coupled with strong business acumen. He is a Passed Finalist of the Institute of Chartered Accountants of Sri Lanka and the Institute of Bankers of Sri Lanka. He has undergone extensive Financial Management Studies at National University of Singapore (NUS).

NAYANTHA FERNANDO
Deputy General Manager - Company Secretary

Nayantha is an Attorney-at-Law with over 27 years of experience. She joined the Bank as the Company Secretary in 1998 and is serving the Bank for almost two decades.

NALEEN EDIRISINGHE
Deputy General Manager - Branch Credit

Naleen counts over 30 years banking experience in commercial banks including Commercial Bank of Ceylon and National Development Bank. He joined Pan Asia Bank in 2000 and has extensive experience in Retail and SME Banking including Credit, Recoveries, Project Financing and Branch Operations. He holds an MSc in Management from the University of Sri Jayewardenepura. He is also a Fellow of the Institute of Bankers of Sri Lanka, Fellow of the Certified Professional Managers and a member of the Association of Professional Bankers, Sri Lanka.

NALAKA WIJAYAWARDANA
Deputy General Manager - Marketing and Personal Banking

Nalaka is a marketing specialist with over 24 years experience in the Banking sector in Sri Lanka and Canada. During his banking career, he has specialised in areas such as Strategic Marketing Planning, Brand Management, Corporate Image Building, Credit Card Marketing and Business Banking Product Management. Prior to joining Pan Asia Bank, he held the position of Product Manager for Cash Management Services at Canadian Imperial Bank of Commerce (CIBC) in Toronto. He has also previously worked as a Senior Marketing Officer at Sampath Bank PLC. He is a Fellow of the Chartered Institute of Marketing (FCIM) UK.

LALITH J. FERNANDO
Deputy General Manager - Chief Risk Officer

Lalith J. Fernando counts over 30 years of experience in banking which includes over 6 years in Corporate Management team of Bank of Ceylon. He holds a BSc Degree in Statistics from the University of Peradeniya, MSc in Management from the University of Sri Jayewardenepura and is a Fellow of the Institute of Bankers (FIB) Sri Lanka. Further, he has been admitted to the Designation of FRM by the Global Association of Risk Professionals, USA in 2012. Prior to joining Pan Asia Bank, he served at Bank of Ceylon as the Deputy General Manager - Chief Risk Officer for a period of more than 3 years. He has been a resource person on Credit Administration and Risk Management at the Institute of Bankers Sri Lanka and the Centre for Banking Studies Central Bank of Sri Lanka since year 2001.

K. L. G. PRADEEP
Deputy General Manager - Commercial Credit

Pradeep counts over 37 years of experience in the banking industry and has wide exposure in the areas of branch operations, finance, credit, micro finance and SME lending. He has worked in Hatton National Bank, Sampath Bank, Cargills Bank and Sanasa Development Bank prior to joining Pan Asia Bank. He has held key Corporate Management positions for over 10 years .

He is an Associate of the Institute of Bankers of Sri Lanka (IBSL) and holds a Diploma in Business and Financial Administration from the Institute of Chartered Accountants Sri Lanka and Diploma Certificate in Modern Commercial Banking from Postgraduate Institute of Management (PIM) Sri Lanka. He has had extensive training in credit and general management in Philippines, Japan, Hong Kong and Germany.

JEREMY DE ZILVA
Assistant General Manager - Internal Audit

Jeremy counts over 27 years of banking experience in both local and foreign Banks. His previous work experience includes Hong Kong and Shanghai Banking Corporation, ABN AMRO and National Development Bank. He is a veteran in banking operations and audit, and holds an MBA from the University of Southern Queensland Australia, a Post Graduate Executive Diploma in Bank Management and Diploma in Banking from the Institute of Bankers of Sri Lanka. He is a Fellow of the Institute of Certified Professional Managers and also a member of the Institute of Internal Auditors USA, Chartered Institute for Securities & Investment UK, Association of Business Executives UK and Institute of Bankers of Sri Lanka. He is currently the Treasurer/ committee member of the Association of Professional Bankers of Sri Lanka and the President of the Bankers' Chief Internal Auditors forum Sri Lanka.

Corporate Management

VARUNI EGODAGE
Assistant General Manager - Legal

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

ROHITHA AMARAPALA
Assistant General Manager - Human Resources

Rohitha has over two decades of experience in Human Resource Management and Administrative functions in Government, Blue Chip and Multinational Organisations in Sri Lanka. He is a Fellow of both Institute of Personnel Management of Sri Lanka and Chartered Management Institute of United Kingdom. He holds an MBA from the University of Western Sydney Australia and National Diploma in Human Resource Management from IPM Sri Lanka. He is a Licensed Practitioner in Psychometric testing systems adopted by Thomas International. He was conferred the prestigious 'HR Leadership Award' for his contribution to the HR profession at the Sri Lanka Best Brand Awards 2017 held in Colombo. He is currently serving as the Immediate Past President, of the Governing Council and Joint Chairman of the International Affairs Committee of IPM Sri Lanka, the premier HR professional body in the country.

CHANDRIKA RANAWAKA
Assistant General Manager - Corporate Banking

Chandrika counts over 23 years of banking experience in both local and foreign Banks. He has experience in all areas of Banking and is specialised in Corporate Banking with over 12 years experience in credit analysis and managing local as well as multinational global relationships. Prior to joining Pan Asia Bank, he has worked in Hatton National Bank PLC, Union National Bank - UAE, BNP Paribas - UAE and DFCC Bank PLC. He holds an MBA from the University of Southern Queensland Australia and a Post Graduate Diploma in Business and Finance from the Institute of Chartered Accountants of Sri Lanka. He is also an Associate of the Institute of Bankers of Sri Lanka and Sri Lanka Institute of Credit Management,

HARSHA KURUKULASURIYA
Assistant General Manager - Operations and Credit Administration

Harsha is a banker with proven track record of 30 years' experience including overseas in branch banking, bank operations, credit evaluation, disbursement & follow-up, Process Development & Re-engineering, customer relationships, efficient management of resources, work ethics and regulatory compliance, operational risk and market risk etc. He joined Pan Asia Bank on 1st August, 2011 as a Senior Manager - Branch and served the Bank in an exemplary manner. He holds an MBA from the American City University, USA and also an Associate of the Institute of Bankers of Sri Lanka.

SHIYAN PERERA
Assistant General Manager - Retail Assets

Shiyan joined Pan Asia Bank in 2010 as Head of Leasing. He counts over 23 years of experience in both Banking and Leasing including Nations Trust Bank PLC, Mercantile Leasing Ltd and Lanka Orix Leasing Company Ltd. He is specialised in Leasing and is an Associate of Association of Professionals, United Kingdom.

UPALI DHARMASIRI
Assistant General Manager - Recoveries

Upali counts over 30 years of experience in banking which includes over 13 years at Senior and Corporate Management capacities. He holds Economic (Special) Degree from the University of Sri Jayewardenepura and successfully completed a Strategic Management Programme at the National University of Singapore (NUS). He is a Life Member of the Association of Professional Bankers, Sri Lanka. Prior to joining Pan Asia Bank he served at Sampath Bank PLC as the Assistant General Manager - Recoveries.

ARUNA RATHUGAMAGE
Assistant General Manager - Chief Information Officer

Aruna counts over 20 years of IT experience in banking which includes over 11 years at Senior Management level. He holds a Masters Degree in Business Leadership (MBL) from University of South Africa, a Bachelors Degree in Mathematics and Statistics from University of Sri Jayewardenepura and he has successfully completed Software Engineering Certificate from Center of the International Cooperation for Computerisation (CICC), Japan. He has also completed a course leading to Masters Degree in Computer Science at University of Colombo & Senior Leadership Course at Standard Bank Centre for Global Leadership. He is a professional member of the British Computer Society (BCS). Prior to joining the Pan Asia Bank, he served at Standard Bank - South Africa as a Senior IT Consultant / Innovation Champion.

ROHAN THAMBIRAJAH
Assistant General Manager - Branch Credit and Deposit Mobilization

Rohan counts over 38 years of experience in banking which includes over 6 years in Corporate Management positions with the Hatton National Bank PLC. Prior to joining Pan Asia Bank, he served HNB as the Assistant General Manager - Network Management covering their network of 250+ branches clustered into 10 regions. Apart from Branch/Area Management, he has a wealth of hands-on expertise in Credit underwriting and administration covering Retail, SME and Commercial Banking sectors.

Senior Management

1. NIMAL RATNAYAKE
Chief Manager - Branch Credit

2. UMAHARAN JEGANATHAN
Chief Manager - Consumer Credit

3. SAMEERA SENERATH
Chief Manager - Retail Business

4. THILANI PEIRIS
Chief Manager - Private Banking and Wealth Management

5. CHANDANA BASNAYAKE
Chief Manager - Colombo South

6. RANGITH RAJENDRAN
Chief Manager - Credit Risk

7. ANIL DE SILVA
Senior Manager - Post Disbursement Credit

8. RAJITHA SILVA
Senior Manager - Administration & Premises

9. PRAKASH SELVARAJAH
Senior Manager - Branch Supervision

10. THUSHARA SURAWEERA
Senior Manager - Branch

11. PALI JAYASEKERA
Senior Manager - Information Technology

12. KAPILA PEIRIS
Senior Manager - Internal Audit

13. ANURADHA GAMAGE
Senior Manager - Branch

14. JAVANA ATUKORALA
Senior Manager - Compliance

15. HIRAN PERERA
Area Manager - Colombo North

16. CHRYSANTHUS PEIRIS
Senior Manager - Collection & Recoveries

17. THUSHARI MALALGODA
Senior Manager - Human Resource Management

18. CHAMATH ATUKORALE
Senior Manager - Treasury Middle Office

19. RENUKA KURUKULASURIYA
Senior Manager - Branch

20. SURANGA FERNANDO
Senior Manager - Finance & Planning

21. RENUKA PREMKUMAR
Deputy Area Manager - Bazaar

22. LOURDETTE WIJEYANATHAN
Senior Manager - Corporate Banking

23. ARAVINDA RODRIGO
Senior Manager - Corporate Banking

24. SANJAYA WEERASEKERA
Senior Manager - Credit Risk

Senior Management

25. **HARSHA SAMARANAYAKE**
Senior Manager - Branch Credit

26. **ANUSHKA WIMALASENA**
Senior Manager - Branch

27. **YOHAN EBELL**
Area Manager - Central

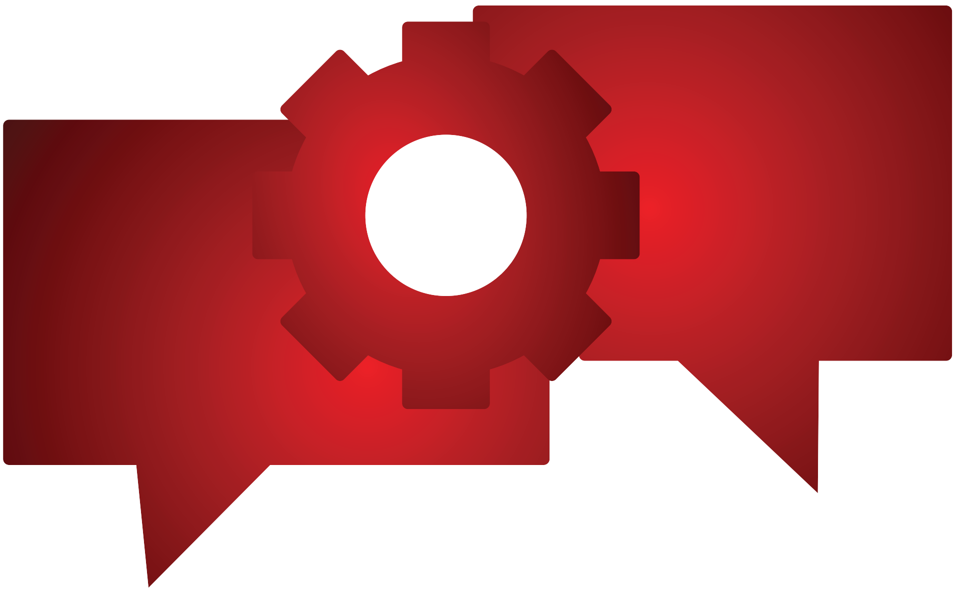
28. **CHAMILA ABEYSOORIYA**
Senior Manager - Cards and Personal Loan Collections and Recoveries

29. **SUDHILA PERERA**
Senior Manager - Branch

30. **PANCHALINGAM SHANKAR**
Area Manager - Northern

31. **THILINI RAMANAYAKE**
Senior Project Manager

32. **PREMANATHAN PRATHABAN**
Area Manager - Eastern



MANAGEMENT DISCUSSION AND ANALYSIS

Macro Economic Review

At the broader level, 2017 saw the synchronised growth in the world's major economies - United States, Europe and Japan for the first time since the 2007/08 Global Financial Crisis with their spillover effects being felt by the emerging markets and the Asian economies.

Meanwhile the Sri Lankan economy was recovering from a Balance of Payment crisis but the economic growth slowed down to about 4.0% from over 5.0% during the preceding two years due to tight monetary and fiscal policies and the extreme weather related destruction of the main harvesting regions.

After the economic instability created in 2015 and 2016 due to the spurt created in the credit and the credit driven imports and the vast scale fiscal profligacy, the economy started showing some stabilisation during 2017. This was due to some prudent management of the monetary and the exchange rate policies by the Central Bank and the discipline showed by the government in handling its finances. However, the supply driven price pressures and the external debt hangover continued to remain key risks for the economic stabilisation during the year.

According to the Census and Statistics Department, Sri Lanka's headline inflation measured by the Colombo Consumer Price Index (CCPI) increased by 7.8% on year-on-year basis in October - the highest since 2015 - before easing to 7.1% in December. Meanwhile the so called core prices measured barring the impact of the often volatile food and energy prices eased to 4.3% in December from 7.3% in March.

Further Moody's Investors Services estimated external debt of US $ 14 billion falling due during 2019 to 2022. This created widespread uncertainty over the direction of the interest rates, albeit some easing seen from towards 2H of the year.

Therefore, it is pertinent to evaluate the impact each of these key macro-economic factors had on the banking sector performance.

TIGHT MONETARY POLICY: AT LAST A DRAG ON THE PRIVATE CREDIT GROWTH

The Central Bank from the beginning of the year took several measures including the increase in the key policy rates to macro-prudential measures such as the Loan-to-Value (LTV) ratio on selected asset classes to rein in the excessive growth in credit to the private individuals and companies and to curb pressure on inflation.

Since February 2016, the Central Bank of Sri Lanka raised its key policy rates by 125 basis points in three times. This was followed by the 150 basis point increase in the Banks' statutory reserves ratio in January in the same year.

The last time the Central Bank of Sri Lanka raised its key policy rates was by 25 basis points in March 2017 in order to contain the build-up of adverse inflation expectations and the possible acceleration of demand side inflationary pressures through excessive monetary and credit expansion. This rate hike was also in response to the quarter percentage point increase in treasury yields by the United States Federal Reserve to maintain the same interest rate differential between the US and Sri Lanka to curb anymore foreign outflows from the government securities market.

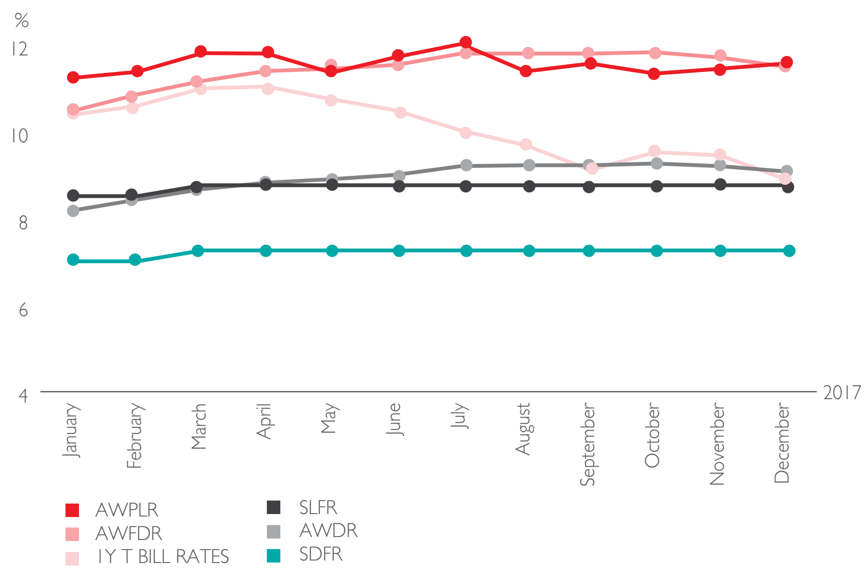
As a result the Statutory Deposit Facility Rate (SDFR) or the rate at which the excess liquidity in the banking sector is absorbed by the Central Bank rose to 7.25% while the Statutory Lending Facility Rate (SLFR) or such liquidity is infused in to the banking system rose to 8.75%. This had a dual impact where the cost of money climbing further higher while squeezing the availability of money in circulation.

In response to prudent monetary policy handling which was reflective from the drastic drop in the printed money stock and the surplus money, the T-bill rates started easing during the final 8 months from the 2017 peak it reached in April 2017 i.e. 11.02% to 8.90% in December 2017.

However due to the wide-spread uncertainty which clouded the overall economy in view of the political gridlock and the external debt-hangover, the other market rates showed very little response by the year end. This is reflected from the below chart which illustrates the behaviour of certain selected interest rates during 2017.

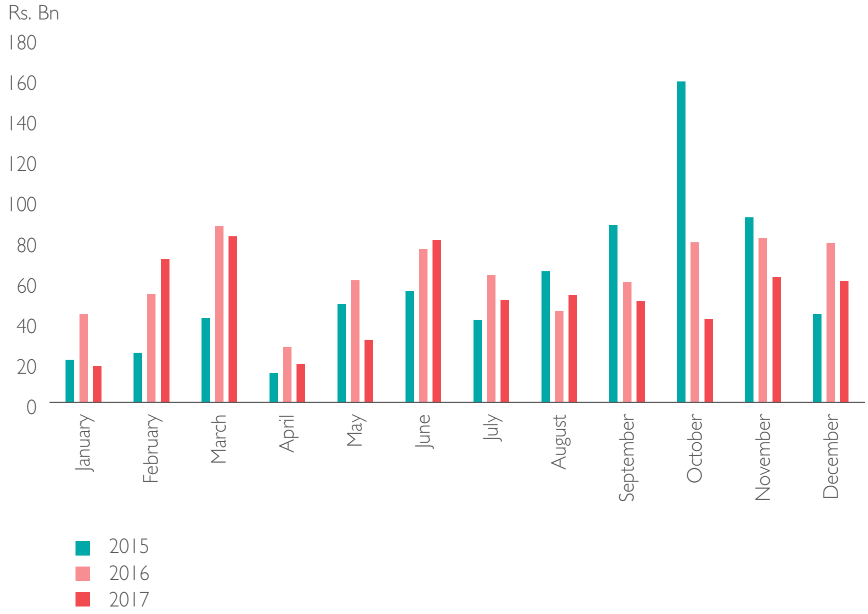
This followed the adjustment in the market interest rates for government securities, loans and deposits as seen below,

INTEREST RATE STRUCTURE



Source : Central Bank of Sri Lanka

CREDIT GRANTED BY COMMERCIAL BANKS TO PRIVATE SECTOR



Source : Central Bank of Sri Lanka

For instance, the Average Weighted Prime Lending Rate (AWPLR) rose by 33 basis points during the 12 months to end the year at 11.55%.

Meanwhile the private sector credit growth which was growing at an accelerated pace during the first few months started responding to the earlier monetary tightening measures. This was due to the 12 to 18 months lag in the transmission of the monetary policy actions in to the real economy.

As a result, the private sector credit growth decline to 15% in 2017 from 22% in the previous year - a significant slowdown. The cumulative expansion in private credit during 2017 was Rs. 618 billion compared to Rs. 752 billion in 2016.

SLUGGISH CONSUMER DEMAND WEAKENED CORPORATE EARNINGS

The higher taxes, particularly the indirect tax stemmed from the value added tax increase in late 2016 and the higher inflation remained during 2017 eroded the disposable income of the masses which had a knock on the impact of the consumer demand. While this situation weakened the asset quality of the banks in 2017 due to people, particularly the fixed income earners finding it difficult to service their facilities when the interest rates moved higher.

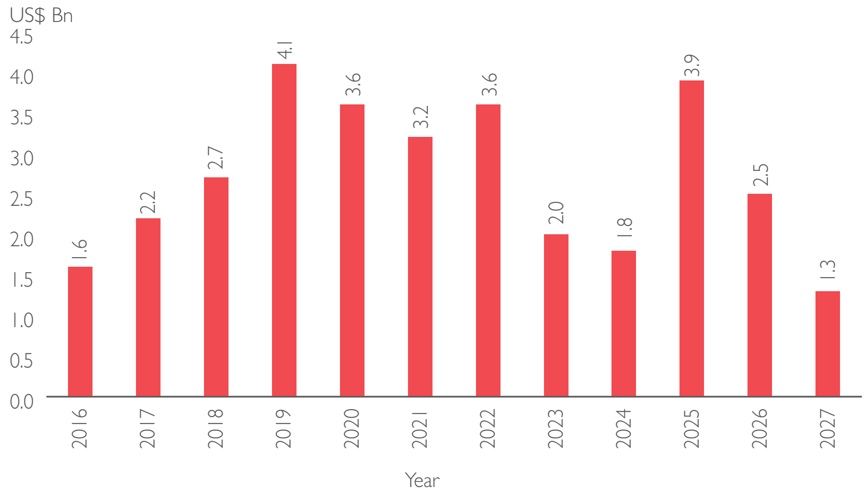
The biggest impact these restraining monetary and fiscal policies had on the economy was the consumer demand being weakened as a result of the erosion in the disposable income. This had a knock on impact on the corporate performance as seen from the earnings of the listed corporates in the recent few quarters. For instance, the earnings of the listed firms in the Colombo Stock Exchange slipped 1.4% year on year to Rs.60.5 billion during the 2017 quarter 3 from the same three months in 2016 weighed down by major segments with the exception of diversified holdings sector.

BUNCH UP EXTERNAL DEBT MATURITIES: A SOURCE OF EXTERNAL VULNERABILITY

Sri Lanka is to face a number of large foreign debt repayments from 2019 to 2022 that will strain reserves adequacy.

As the below chart illustrates, the repayments will rise to US $ 4.1 billion in 2019 from US $ 2.2 billion this year. Over the four years from 2019 to 2022, average external debt repayments will be US $ 3.6 billion per year. Although we expect most of these maturities to be refinanced, the bunching of such large repayments raises rollover and external vulnerability risks.

EXTERNAL DEBT REPAYMENTS DUE



Source : Moody's Investors Service

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The financial performance of the Bank which will be uncovered in this section plus in the latter part of this report will manifest the effectiveness of the execution of the strategies amid those challenges in terms of rupees and cents.

As alluded to both our Chairman and the Chief Executive Officer, year 2017 has not been one of the impressive financial years for Pan Asia Bank for all the reasons explained in detail in the preceding sections of this report.

This financial review demonstrates the Bank reporting a modest performance in top and bottom-lines while recording a growth in the balance sheet which will set the stage to leap frog from where the Bank stopped on 31st December 2017.

MODEST PORTFOLIO PERFORMANCE

Unlike in a trading organisation, a bank's profitability depends on how fast it could grow its lending book, its key output product and the how robustly it could mobilise customer deposits, its key input product. The pace of which a bank or any other financial intermediary performs these two key functions will decide how successful such an entity is in terms of financial performance.

Until 2017 Q3, the Bank's performance in both of these areas has not been up to the expectations, particularly in relation to the growth in the loan book. As explained earlier in this report, this was due to certain conscious decisions taken to purposely slowdown the growth in the asset base until certain credit control measures were put in place to arrest the growing non-performing loan portfolio.

As these control measures and the reforms that were introduced throughout the year started to yield results, the gross non-performing loan ratio which peaked to 6.03% by the end of the 2017 Q3 was brought down to 4.36% within a span of 3 months. Further, as bulk of the loan book growth kicked in from 2017 Q4 onwards, the Bank could not recognise the full income from those assets during the year itself, thus resulting in limited boost in the top and bottom-lines.

BETTER CONTROL OF LOAN LOSS PROVISIONS

Despite the asset quality challenges, the Bank ended the year with a slightly lower impairment provisions against the possible losses compared to 2016. The recoveries in to some of the hardcore delinquent credit facilities gave the much needed fillip in to the individual impairment provision charge for the year which came down to Rs. 337.26 million from Rs. 482.27 million in 2016.

Besides, the Bank's prudent policies ensured that it made adequately higher loan loss provisions in 2016 which lessened the burden of the provisions against possible bad loans in 2017.

Meanwhile the collective impairment charge for the year rose to Rs. 160.17 million from Rs. 47.01 million, a growth which was recorded in line with the growth in the loan portfolio. The individual impairment provision cover as at the end of December 2017 stood at 51.40%.

LOAN BOOK GROWTH

During the 12 months ended 31st December 2017, the Bank grew its gross loans and receivables book by Rs. 12.84 billion registering a growth of 13.04%. below the industry private sector credit growth of 15%.

It has been noted that restrictive monetary and fiscal policies had an impact on the slowdown in the demand for new loans, throughout the industry. This is why building internal strengths to create resilience within the Bank came to the fore during 2017 although it took some toll on the growth as the Bank was of the view that short term pain leads to long term sustained growth.

Among the segments which propelled the loan book during the year were consumer credit which includes credit cards and the personal loans and credit facilities to Small and Medium Enterprises.

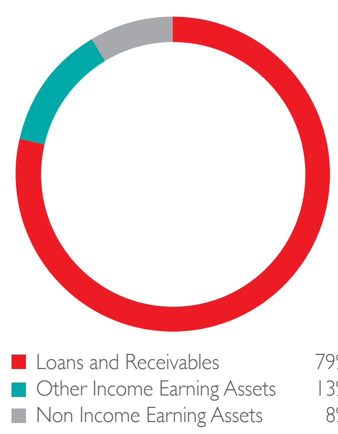
Meanwhile what is notable in the growth in the loan portfolio during 2017 was the slight tilt towards Corporate Banking segment during the latter part of the year. This is a conscious strategy towards diversifying the portfolio from the overly titled retail and consumer banking. The excess liquidity the Bank had during most of the year gave the Bank the much needed leverage in making this crucial shift.

ASSET BOOK GREW IN TANDEM WITH LOANS

Loans and receivables account for a majority of the Bank's assets, led the growth in Bank's balance sheet, albeit at a slower pace.

During the year, the Bank expanded its asset base by 6.99% to Rs. 138.50 billion. However, as highlighted above, the Bank's main focus during 2017 was to ensure these assets remain high in terms of the quality and to lay a firm foundation for a sustained growth in such quality assets.

COMPOSITION OF TOTAL ASSETS



ROBUST GROWTH IN DEPOSITS - BOTH SHORT AND LONG TERM

Deposits were an area where the Bank made some boastful performances albeit the slowing down of the low cost fund base.

The two key accomplishments made in the Bank's funding profile were as follows;

- **Improvement in the maturity profile**

  As tough as 2017 has been for the Bank, the Bank addressed some of its pressing issues. One such area was the extension of the Bank's maturity profile which had long been tilted towards the shorter end tenors.

  The Bank's medium term deposits, from 2-5 years offered an attractive proposition for a larger segment in the society to park their retirement savings or other investments in a safe, long term product with a decent return.

  By this way, the Bank mobilised a sizable deposit base throughout the year which also extended the Bank's maturity profile of its funding base.

- **Building liquidity through a short term offering**

  Meanwhile the Bank's 4 months fixed deposit, which was introduced in mid September, became a tremendous success as it bridged a much needed vacuum in the market for those who seek a higher return in safe short term deposit. By this way the Bank not just built a solid deposit base but also maintained consistently higher liquidity profile throughout the year.

  The Bank's statutory liquid asset ratios as at 31st December 2017, stood at 23.25% and 27.04% for Domestic Banking unit and Foreign Currency Banking unit respectively against the regulatory minimum of 20%.

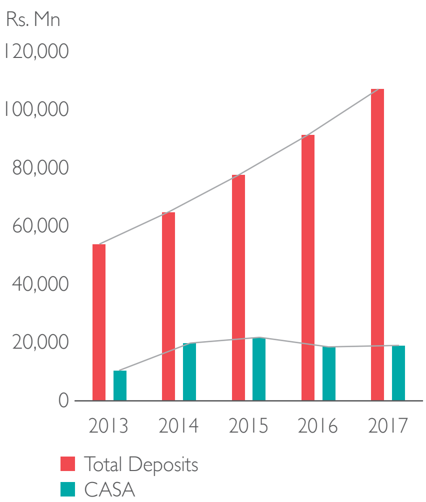
  Meanwhile the Bank's rupee liquidity measured under the Basel III Liquidity Coverage Ratio (LCR) reached a high of 208.84% in December 2017, well above the minimum requirement of 80% that should be maintained by the year end while all currency LCR stood at 195.36%.

LOW COST FUNDS TOOK A HIT

The Bank's CASA ratio declined to 17.70% by 31st December 2017 from 20.33% a year ago. In fact the main reason behind the slippage in the CASA ratio in the Bank was the growth in the medium term deposits which outweighed the growth in the low cost deposits.

The Bank's total deposit base (due to customers) grew by Rs. 15.74 billion or 17.21% during the year, out of which the bulk stemmed from the term deposits which carry a relatively higher cost. The knock on impact on this phenomenon is also reflected in our net interest margin which narrowed to 3.61% in 2017 from 3.87% a year ago. The industry CASA also followed suit in dropping to 34% in 2017.

TOTAL DEPOSITS VS CASA

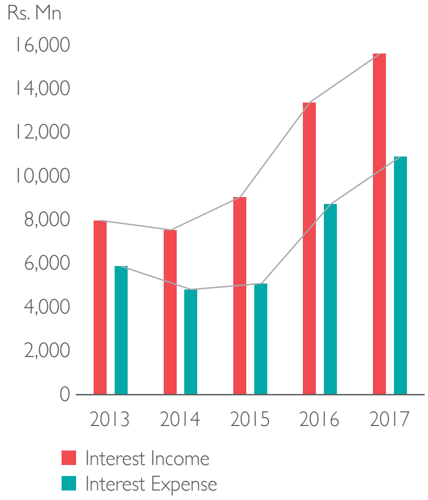


PRESSING NET INTEREST MARGINS AMID INCREASING FUNDING COST

The depletion of the CASA ratio and the rising deposit cost specially in the medium term deposits took a toll on the Bank's net interest margin (NIM) in 2017, although the impact was lessened to a greater degree due to prudent management of assets and the liabilities of the portfolio.

As a result of this shift the Bank's NIM narrowed to 3.61% from 3.87% in 2016 while the industry NIM stood at 3.5%, which also had come down from 3.6%.

INTEREST INCOME VS INTEREST EXPENSE



ALTERNATIVE FUNDING SOURCES

In 2017, the Bank successfully entered into an agreement with Global Climate Partnership Fund (GCPF), a Europe based green financer for US $ 13 million funding line for 7 years. This is the second time the Bank engaged with the GCPF as in 2013 and 2015, the Bank took the receipt of US $ 20 million in two equal tranches of funds to actively pursue its green agenda. These funds came in at competitive rates as the proceeds are to be deployed in selected areas of sustainable lending.

While the costs of these funds are cheap or competitive, this line enabled the Bank to reduce its total dependence on the deposits and diversify more into foreign funding lines which also enhanced its profile.

Financial Review

NII FAILED TO PROVIDE THE TRADITIONAL BOTTOM-LINE PUSH

The net interest income, the difference between the returns from the interest earning assets and the cost of the interest bearing liabilities grew marginally by 1.57% to Rs. 4.71 billion during the year from Rs. 4.63 billion an year ago.

This demonstrates the pressing margin condition which was highlighted above and as a result the NII could not provide the traditionally high stimulus to the bottom-line.

Hence bulk of the stimulus in to the bottom-line in 2017 came from fee and commission income and trading gains.

NON INTEREST INCOME - A CRUCIAL BUFFER TO A FLAT TOP-LINE

The net fee and commission income rose by a strong 18.65% during 2017 to Rs. 1.31 billion against Rs.1.11 billion of the previous year mainly stemmed from the cards, trade, remittance and loan segments.

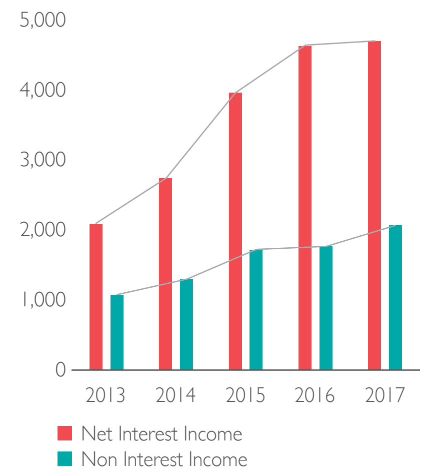
The card related income improved remarkably by 77% to Rs. 335.57 million in 2017, primarily fuelled by the expansion of credit card volumes and transaction fees. Meanwhile the Bank successfully pursued strategies to penetrate trade and remittance hubs in 2017 resulting in improving trade & remittance related fees and commission by 10.12% to Rs. 280.64 million. The loan related fee and commission income grew by 14.11% to Rs. 522.55 million in 2017 in line with the growth of the lending book.

Meanwhile the Bank made trading gains of Rs. 391.4 million against Rs. 275.1 million registering an increase of 42.28% primarily on account of increase in net forward forex gains and tax free gains from unit trust investments.

The total operating income, comprising of the net interest income, net fee and commission income, trading gains and other operating income, rose by 5.31% to Rs. 6.68 billion in 2017.

Total non-interest income of the Bank accounted for 29.53% of total operating income of the bank in 2017 against 26.94% in the previous year.

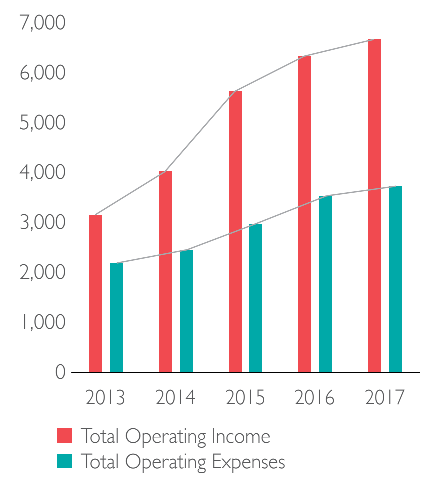
NET INTEREST INCOME VS NON INTEREST INCOME



OPERATIONAL EFFICIENCY

During the year, the Bank saw the operating expenses increasing in absolute terms, albeit at a much slower pace of 5.56% to Rs.3.73 billion for 2017. This is in comparison to the 18.24% growth in such expenses in 2016, hence reflects the consistent commitment of the management towards better cost management. The management deserves plaudits for better cost discipline amid a much tougher operating conditions which characterised by factors not limited to higher taxes and inflation which remained in upper single digit levels throughout most part of the year.

TOTAL OPERATING INCOME VS TOTAL OPERATING EXPENSES



Whilst insignificant, the Bank's cost-to-income ratio, the key efficiency measurement ratio in the banking sector - slipped few basis points to 56.51% in 2017 from 56.03% in 2016 mainly due to moderate growth in total operating income in 2017. This still demonstrates the bank's commitment and resolve to keep a closer tab on its cost base.

In 2017, the Bank took several measures including head office staff rationalisation where the bank took a conscious decision to re-deploy excess head office staff in to its branch network. This resulted in a relatively healthy ratio of staff between the branch network and the head office although it is yet to reach the optimal level.

Furthermore, the Bank undertook several workflow automation projects seeking full automation of some of the identified processes. These projects will continue unabated gradually eliminating the slack in those processes by replacing them with technology.

The Bank also reviewed the extended banking hours and holiday banking across the network and decided to streamline the operations. Meanwhile in extending the bank's network of branches the Bank took a conscious decision to strike a balance between high capital incentive brick and mortar branches and digital channels.

MODEST GROWTH IN BOTTOM LINE

The Bank reported an Operating Profit before Value Added Tax and Nation Building Tax on Financial Services of Rs.2.45 billion in 2017, an increase of 7.63% over the previous year while, the profit before tax rose by 4.49% to Rs. 1.88 billion in 2017.

Meanwhile, the total effective income tax rate of the Bank improved to 25.86% in 2017 from 30.26% in the previous year due to the effective tax planning strategies implemented during the year which in turn reflected in increasing the profit after tax by 11.09% to

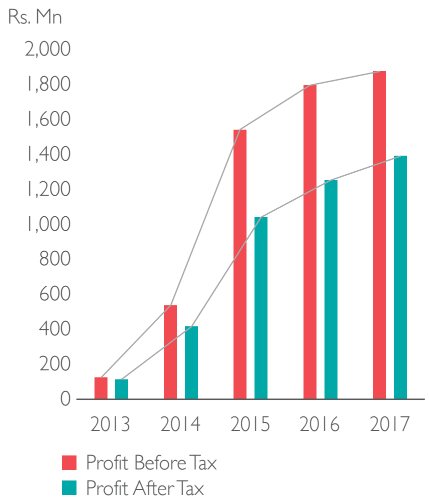
Rs. 1.39 billion, at a pace much higher than the growth in profit before taxes.

The Bank's Earnings per Share (EPS) decreased to Rs. 3.31 in 2017 from Rs. 4.01 in the previous year due to the effect of the right issue in March 2017.

As a result of the capital boost, the Return on Equity (RoE) fell to 14.86% in 2017 from 19.97% in 2016, which is lower than the industry average of 17.6%.

Meanwhile Return on Assets (ROA) improved moderately to 1.07% in 2017 from 1.05% in the previous year. However, the Bank's ROA is yet to reach the industry standards.

PRE-TAX & POST-TAX PROFIT



CAPITAL ADEQUACY, THE MEASURE OF SAFE & SOUNDNESS

The Bank currently remains well above the transitional minimum capital adequacy ratio requirements under Basel III. As at 31st December 2017, both the Bank's Common Equity Tier I Capital Ratio and the Total Tier I Capital Ratio stood at 11.38% while the Total Capital Ratio stood at 13.53% well above the regulatory minimums of 5.75% (CET1), 7.25% (Total Tier 1) and 11.25% (Total Capital) respectively.

The Bank's Total Common Equity Tier 1 (CET I) capital as at 31st December 2017 stood at Rs. 10.04 billion. Meanwhile, the Bank's Total Capital Base comprising of Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital stood at Rs. 11.59 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

Future Outlook

Future outlook for the banking sector largely depends on the outlook for the economy in 2018 and beyond.

After two years of turmoil in 2015 and 2016, the economy attained some form of stability during 2017 which is largely expected to continue during 2018 as the macro-economic fundamentals have gotten stronger to withstand shocks.

The policy co-ordination between the Central Bank and the Finance Ministry helped achieve this benign status of macro-economic condition which is largely expected to continue towards the end of the year albeit slight variations which are unlikely to make any significant impact on the real economy.

Hence, we believe the economic and the banking sector outlook during 2018 will look like the following;

MODERATE PRIVATE SECTOR CREDIT GROWTH

After containing the excessively high private sector credit growth due to a combination of monetary policy actions and macro-prudential measures during 2016 and 2017 towards mid 15 percent levels, it is largely expected the same growth or even lesser growth would continue during 2018.

Although the rates have been easing in recent times, the Monetary Board is unlikely to allow the banks to grow their asset books excessively because such credit could well destabilise the economy by way of stoking demand driven inflation and the external sector which is already fragile with a heavy external debt hangover.

Meanwhile there is also an uncertainty over the direction of the interest rates from the 2H'18 because the bunched up local debt and the foreign debt repayments from 2019 will weigh on the domestic rates. According to Moody's Investors Service, there is as much as US $ 14 billion in foreign debt repayments during 2019 - 2022.

Given the expected normalisation in the developed markets led by the United States could prompt the Central Bank of Sri Lanka to raise interest rates to maintain the same spread between the US interest rates and the LKR rates.

CONSUMER CREDIT CONTINUE TO DRIVE CREDIT DEMAND

Consumer credit segment consisting of credit card advances, consumer loans and other personal loans are likely to continue its robust growth this year as well because people will continue to have unfettered consumerism and thus will have to depend on consumer credit.

Even though the economic fundamentals have slightly improved, the inflation is likely to remain elevated throughout the year and thus could trigger more demand for consumer credit in the form of credit card advances which will have to be rolled over.

Traditionally Credit quality of consumer loans has remained above other consumer credit segments as such is being offered to salaried employees. Further the administrative process associated with consumer loans are also relatively hassle free for both the borrower as well as the bank, thus leading to a large number of small ticket size loans to this much favoured segment by the banking sector.

A number of banks have already either set up sales forces or strengthened their existing ones to become aggressive in the consumer lending space intensifying the competition among the lenders. As a result of this push strategy adopted by the banks that remain hungry for growth will see the borrower benefitting with slightly lower rate and as a result the sector will disburse a lot more consumer credit substantially higher than the previous years. This competition among the banks will also bring a new segment of borrowers in to the banking system that was earlier left behind due to various reasons.

SMALL ENTERPRISE LOANS WILL SEE A RENAISSANCE

Loans to micro, small and medium size enterprises will see a renaissance during 2018 as a consequence of the government's policy on revitalising the small enterprises to create jobs and encouraging export oriented manufacturing.

Besides the national economic policy, the banks will also increasingly penetrate the SME business as a growth area as a form of sustainable growth, albeit at a slightly higher risk.

BANKS LIKELY TO INCREASE FOREIGN BORROWINGS

Licensed banks will likely to increase their foreign borrowings to both diversify their funding mix and fund their asset growth as the Central Bank of Sri Lanka issued new directions linking such borrowings to the total asset bases from the earlier practice of limiting such borrowings to the amount of capital.

According to the new directive issued by the regulator, the percentage of foreign currency borrowings of licensed banks shall be based on the sum of scores assigned for each bank based on the external credit rating and the total capital ratio (as per Basel III accord) of the bank.

Hence the total foreign currency borrowing limits as a percentage of total assets will vary from 5% to 10% depending on the score assigned to each bank. This is a deviation from the current practice of limiting foreign borrowings to 15% of the capital funds of a bank.

However, the banks will be exempted from these maximum limits if the licensed commercial bank is incorporated outside Sri Lanka or such borrowed funds are utilised for investments in Development Bonds, Sovereign Bonds and Treasury Bonds issued by the Government of Sri Lanka, with a tenor not less than 3 years.

Therefore it is expected that the banks will beef up their foreign capital raising efforts to fund their robust asset growth projection in 2018 provided the currency remains without undue volatilities.

SIGNIFICANT BOOST IN ISSUANCES OF BASEL III COMPLIANT TIER 2 CAPITAL INSTRUMENTS

Most banks in Sri Lanka will need to raise additional capital to meet higher Basel III requirements that take full effect in January 2019, and to support balance sheet expansion. It is expected that there will be a significant boost in issuances of Basel III compliant Tier 2 instruments in 2018 by Sri Lankan banks to comply with regulatory capital requirements. The Banks will also need to undertake significant Basel III compliant Tier 2 issuance as a result of the phasing out of legacy instruments and certain ongoing instruments.

Specially, the banks with asset bases of over Rs. 500 billion which have been identified as 'Domestic Systemically Important Banks (D-SIB's), need to enhance their total capital ratio to 14% level at minimum by 1st January 2019 from the 10% level under Basel II. Minimum total capital ratio requirement for other banks will go up only by 250 bps to 12.5% once fully convergence takes place.

As per the Banking Act direction, it is only financial instruments that fulfill the 'non viability clause' are eligible for Tier 2 capital. This means most of the financial instruments that fulfill this criterion would be convertible debt or potential equity that affects the rights of equity holders of banks and thereby dilute the earnings per share of the banking sector.

INCREASE IN REGULATORY OVERSIGHT

2018 will lay the foundation for increased regulatory oversight of the banks as the Central Bank of Sri Lanka (CBSL) looks to become proactive in their oversight function given the changing banking sector landscape amid need for increased scrutiny over financial crimes, cyber crimes and fast advancement of digital currencies such as Bitcoin.

To this end, the CBSL will introduce a new Banking Act and a new bank monitoring system during 2018.

Further the regulator will also upgrade the bank examination methodology to focus not only on compliance to rules but on the efficiency, effectiveness and sustainability of individual banks and the entire banking sector, based on a Bank Sustainability Risk Index, instead of the current on-site examinations.

Accordingly, initiatives are underway to assign ratings to banks based on a combination of quantitative and qualitative indicators that will assess their efficiency and sustainability.

SLFRS 9 TO HAVE A SIZEABLE IMPACT ON BANK'S PROFITS AND REGULATORY CAPITAL

SLFRS 9: Financial Instruments will require banks to recognise impairment sooner and estimate lifetime expected losses against a wider spectrum of financial assets. The implementation of this standard from 1st January 2018 onwards is widely expected to increase the stock of credit impairment provisions and affect profits adversely. As a result, many banks are expected to suffer a decline in regulatory capital.

Under SLFRS 9, recognition of impairment no longer depends on a reporting entity first identifying a credit loss event. This is a major change from the previous standard LKAS 39. SLFRS 9 instead uses more forward-looking information to recognise expected credit losses for all debt-type financial assets that are not measured at fair value through profit or loss.

SLFRS 9 draws a distinction between financial instruments that have not deteriorated significantly in credit quality since initial recognition and financial instruments with credit quality deteriorated significantly since initial recognition. The Banks need to recognise '12-month expected credit losses' on the former while 'Lifetime expected credit losses' are to be recognised on the latter.

When an asset moves from 12-month expected credit losses to lifetime expected credit losses when there has been a significant deterioration in credit quality since initial recognition. Hence, the 'boundary' between 12-month and lifetime losses is based on the change in credit risk not the absolute level of risk at the reporting date.

IMPACT OF NEW INLAND REVENUE ACT AND BUDGET PROPOSALS ON THE BANKING SECTOR PROFIT LEVELS

The provisions of the New Inland Revenue Act No. 24 of 2017 which comes into effect on 1st April 2018 is expected to affect the banking industry bottom-line adversely due to cessation of existing tax exemptions and concessions.

The new Inland Revenue act does not include provisions to exempt income from many investments which is available under the existing Act which is effective up to 31st March 2018. These exempted income include gains from Sri Lanka Development Bonds, units and quoted debentures. In addition the new act neither contain provisions to enable capital allowances on finance leasing assets nor notional tax credit on government securities which were permitted in the preceding Act. Furthermore, the new act imposes taxes on value appreciation from land, which brings in the concept of capital gain tax after a lag of three decades.

However, ambiguities still exist over the transitional provisions of the new Act which could have a substantial adverse effect the bottom line of the banking sector unless exemptions & concessions in the preceding Act continued to be applied for transactions entered into up to 31st March 2018.

On the other hand the Financial Transaction Levy which is proposed to come into effect on 1st April 2018 is expected to affect banking sector bottom-line adversely although the legislative pronouncements in this regard are yet to be made.

Business Review

LAYING A FIRM FOUNDATION FOR A SUSTAINABLE GROWTH

The year 2017 proved to be a rather challenging period for Pan Asia Bank as the Bank faced many headwinds from both within and outside.

Rising up to the challenge however, it was admiring to note that the Bank was able to turn those headwinds in to tailwinds, laying a firm foundation for a sustainable growth in years to come.

If one is to caricaturise the year under review, it was one of slow growth periods which gave the Bank space to fine tune multiple areas such as leadership, business model, risk and NPL management, people management, succession planning, process improvements and information technology infrastructure, - all of which are ingredients required to record a robust long term growth in both profits and balance sheet size. This demonstrates the Bank's continuous commitment and ability to re-innovate and reform in order to deliver value, consistently to our stakeholders.

In fact, these reforms which will be unraveled here and elsewhere in this report started yielding results from the final quarter of 2017 itself as reflected by the Bank's performance during the same period in areas such as deposits, loans, non-performing loans and profits.

REFORMS TO BUILD RESILIENCE

Even before the start of the year, we were aware that the macro-economic conditions were going to be hostile, not just for us but for the industry and the entire business as well as the consumer community.

Hence, the challenge for us was to build the required resilience to ensure that we remain strong enough to deliver consistent performance at least reasonably well throughout the economic cycle.

We knew that we are more susceptible to effects of headwinds such as higher interest rates and its knock on impact on our growth and asset quality than some of the giants in the industry. Hence, we swiftly took meaningful steps to build resilience within our business to weather these storms.

We have listed down some of these key reforms we made to our business model and processes.

- **Getting the right people for the right job**

  As any other business organisation, banking business is also akin to a journey with important mileposts and thus everybody taking part in the journey should share the same goals and objectives to reach its destination of accomplishing its mission.

  With this objective in mind, in 2017, the Bank made several key changes in the management team by bringing in new members to strengthen same, and also re-allocating responsibilities in a rational manner.

- **Strengthening Regional Management**

  Due to bank's strong SME thrust driven through regional hubs for the want of a better balanced portfolio mix across its geographical segments, the Bank revisited its area demarcation to create new, manageable regions. These regions were then strengthened with infusion of fresh blood from both within and outside, enabling the Bank to play a more inclusive and meaningful role in the national economic development journey.

- **Branches inculcated with sales mindset**

  One of the biggest reforms carried out throughout the year was to build the sales spirit in the branch network which was hitherto seen only in the Central Sales team, to ensure that the branches too up their game in bringing business.

- **Establishment of regional sales teams**

  While strengthening the sales spirit across the branch network, the Bank also took steps to establish sales units in selected regions with the objective of penetrating effectively in to those areas.

  The Bank's strength in centralised sales capabilities helped the Bank to replicate the model in other regions successfully to bring higher results in a shorter time span.

- **Establishment of regional credit hubs**

  Meanwhile the Bank also took several steps to establish credit hubs at each region manned with highly skilled credit personnel in order to enhance the turnover time and smoothen the process.

  To strengthen these units, the Bank is conducting certificate courses in credit management internally to ensure those who are stationed at the regional hubs are highly skilled in credit - a crucial competency to deliver an efficient and an effective service to our end client.

- **From a pure retail lender to a retail bank with wholesale focus**

  In order to build further resilience, the Bank, while maintaining its signature retail identity consciously shifted towards servicing selected large scale corporates with a view to re-balance its reliance on business segments, in a bid to better weather the macro level storms.

- **Establishment of a Post-Disbursement Unit (PDU)**

  In anticipation of deteriorating asset quality in response to the rising interest rates and challenging economic conditions that were prevalent during 2016 and early part of 2017, we took several swift measures to control our new non-performing loans and maintain our asset quality.

As a result, the Bank established a Post-Disbursement Unit to closely follow through the facilities upon disbursement.

This unit which was set up during the second quarter of the year made tremendous progress during the remaining nine months as the Bank could considerably contain the new additions in to NPLs.

The PDU now acts as an important line of defense before a facility falls in to NPL category providing a much needed cushion to the Recoveries Department to focus on hardcore NPLs.

- **Renewed focus on fine-tuning and execution of business strategy**

The blueprint of all the aforementioned reforms is the five year business strategy which the Bank developed in 2017 as we always take a long term view while remaining nimble and flexible to respond to evolving business dynamics.

The new leadership, both at our Board and the C-suite level took a hard look at the hitherto existed business strategy and decided to change course in areas where it matters to ensure sustainable value creation for all our stakeholders.

Good governance, sound risk management, business and professional ethics, social responsibility and environmental sustainability are at the heart of our strategy which we are now in the process of embedding in to everything we do at our Bank. We remain firmly committed to effective execution of same.

In addition to the key initiatives that were highlighted above, there were many other areas of reforms, particularly related to the staff, processes and IT infrastructure which will directly support the business units in operating at their peak.

Following section will dwell on some of the key business highlights in 2017.

WE STRENGTHENED OUR CAPITAL TO STAY ON TOP OF REGULATORY REQUIREMENTS & SUPPORT OUR GROWTH

- **We surpassed Rs.10 billion minimum regulatory Total Common Equity Tier I capital (CET I capital)**

As promised to our regulator two years ago, we surpassed the regulatory minimum Total Common Equity Tier I capital of Rs.10 billion in 2017.

The gradual enhancement of our CET I was done through a mix of new capital raised by way of a rights issue and internally generated capital.

Now, we are committed to double our CET I within the next three years as we are striving to create a sustainable growth path.

- **Our Rs.2 billion rights issue oversubscribed**

The Bank in a rights issue raised Rs.2.06 billion in March which was oversubscribed.

The rights issue was part of the capital augmentation plan submitted to the Central Bank in 2015 which laid down a time bound capital enhancement strategy to reach the regulatory minimum of Rs.10 billion which we surpassed in 2017.

For this purpose, the Bank issued 147.5 million shares in the proportion of one new ordinary share for every two shares at an issue price of Rs.14/-.

- **We took receipt of US $ 7 million in green funds to support green projects**

In 2017, the Bank also took receipt of US $ 7 million funds from the Global Climate Partnership Fund (GCPF) supporting the Bank's Green funding initiatives as well as the liquidity profile.

The Bank is now disbursing these funds to projects which reduce the environmental footprint whilst supporting energy efficient projects.

Good governance, sound risk management, business and professional ethics, social responsibility and environmental sustainability are at the heart of our strategy which we are now in the process of embedding in to everything we do at our Bank. We remain firmly committed to effective execution of same.

WE ESTABLISHED A NEW UNIT TO DRIVE OUR SUSTAINABILITY AGENDA

The Bank also established a new department titled 'International Relations & Sustainability' to lead our sustainable financing agenda and also to promote Green banking across the network.

With the establishment of this Unit, Pan Asia Bank became one of the few banks in Sri Lanka which operates with a dedicated unit to drive the whole sustainability agenda with a clear focus.

This unit will continuously attempt to create a strong eco-system through sustainability financing by bringing together stakeholders such as Green financiers, Green depositors and borrowers, the regulators, the industry and the community to promote the concept.

This new department comprises of three subsections (Sustainability, International Relations and Green Lending) and will take the responsibility of promoting sustainability & managing international relations & obtaining foreign funding, while acting as a supporting unit to proliferate Green lending through Retail, SME, & Corporate Banking Departments.

Business Review

The Bank also unveiled its new and improved internet banking solution platform as a part of its endeavour to conquer the digital banking frontier of the country.

DEDICATED CENTRE FOR PRIVATE BANKING

Pan Asia Bank opened a dedicated centre for Private Banking and Wealth Management at the World Trade Centre to offer specialised financial and investment advisory services to its high net worth customers.

The purpose built centre has been designed to offer maximum convenience to customers and located in one of most prime business locations in the heart of Colombo.

WE ALSO INTRODUCED SOME GAME CHANGING PRODUCTS IN 2017

- **Our 4 -months deposit campaign became a hit**

  The Bank's 4 -months fixed deposit product which was launched in mid-September became a tremendous success and remains so to date as it filled a gap in the market for those who were looking for a higher short term return.

  The 4-months FD which offered an attractive interest rate was a fitting safe instrument for anyone who does not have a clear idea on the direction of the market interest rates, as it offers a clear exit strategy for the Bank as well as the depositor.

- **Our 'Nivasa' Home Loan with a 10 year fixed interest provides true comfort**

  Despite the higher interest rates that prevailed during most part of the year and the uncertainty over the future direction of the market interest rates, the Bank took a bold decision to offer a loan with a 10 year fixed interest rate structure starting from as low as 13.5%

  The product was aimed at people who were yearning for their dream home, yet were reluctant to commit due to the effects of fluctuating interest rates.

- **Re-launch of Mithuru MAX Children's Savings account**

  In October, coinciding with the Universal Children's Day, the Bank re-launched one of its flagship children savings accounts under the name 'Mithuru MAX' with enhanced features and attractive gifts with the objective of building long term low cost fund base to support long term lending of the Bank.

- **Swashakthi Credit Facility Scheme to support Micro & SME businesses**

  Pan Asia Bank launched Swashakthi Credit Facility Scheme under a government assisted re-finance scheme to provide subsidised loans to the Micro and SME businesses across the island.

  The participation in the credit scheme demonstrates the Bank's commitment to help assist the country's micro, small and medium enterprises to create jobs and generate economic wealth in the nation.

- **Consumer Loans carried bulk of retail portfolio growth**

  Our Consumer Loan product which also provides a special one day service offered an attractive proposition for any busy individual who wants to fulfill his/her financial needs with minimum hassle.

  Our sales team, a benchmark for service excellence in the industry played a pivotal role in generating a strong growth in this portfolio. In fact, Consumer Loans accounted for a lions share of the retail advances growth in 2017.

OUR DIGITAL BANKING FOOTPRINT CONTINUED TO EXPAND

The Bank also unveiled its new and improved internet banking solution platform as a part of its endeavour to conquer the digital banking frontier of the country.

Further, the Bank also launched a state-of-the-art mobile banking app which is one of the most user friendly and convenient applications available in the market.

The Bank tied up with many leading merchants and utility service providers facilitating an easy payment platform for consumers.

Also, our facebook page continues to be patronised by over 200,000 fans, a testament to the Bank's commitment to utilise digital media to build a stronger two way communication channel with its existing and potential customers. This enabled the Bank to respond faster to the concerns and quarries posed by customers and also to take their feedback into consideration to understand true customer requirements.

The Bank also maintains active presence on other social media platforms such as YouTube, Twitter and LinkedIn.

EXPANDING OUR PHYSICAL FOOT PRINT

During 2017, the Bank opened three branches in Dankotuwa, Hikkaduwa and Weligama bringing our total network to 85 branches.

The Bank consciously slowed down the new branch openings during 2017 in order to pay more attention to harnessing the full potential of the existing branches.

Nevertheless the Bank would take somewhat an aggressive approach to extend its physical network during 2018 and beyond as part of its five year strategic plan.

EXTENDING OUR REACH THROUGH PARTNERSHIPS

We joined hands with the country's largest consumer goods retailer Singer Sri Lanka, to accept Pan Asia Bank credit card payments at all their over 400 Singer PLUS, Singer Mega, Singer Home & Sisil World outlets islandwide.

With the Singer partnership, Pan Asia Bank credit card holders now have the option to make payments at close to 500 outlets including the Bank's growing branch network, thus making it one of the largest networks for credit card settlements.

BANK RECOGNISED FOR ITS BUSINESS EXCELLENCE

The high point of all these achievements during 2017 was the Bank being recognised as the 'Fastest Growing Commercial Bank in Sri Lanka' for the fourth consecutive year by Global Banking and Finance Review and the 'Fastest Growing Retail Bank in Sri Lanka' becoming among the host of other players.

Meanwhile, the Bank was also recognised for its banking excellence for the third consecutive year at the National Business Excellence Awards 2017 - the benchmark business excellence competition organised by the National Chamber of Commerce of Sri Lanka.

Key Product Offerings

Champion Saver

Higher returns with unlimited withdrawals

CHAMPION
SAVER
Savings Account

- An attractive high interest rate
- Freedom to withdraw money any number of times without losing interest
- Ability to access money from any ATM carrying the VISA or Lanka Pay logo

Mithuru MAX

The Children's Savings Account that offers amazing gifts

PAN ASIA
MITHURU
MAX

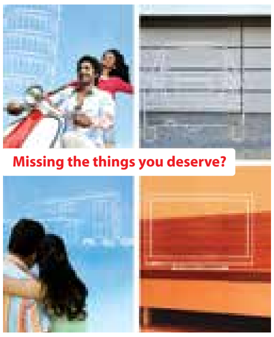
- Attractive gifts based on the account balance
- Special gifts for year 5 scholarship winners

Sammana

A special package of a guarantor free loan and a savings account for retired government & CBSL pensioners

Sammana

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



Personal Loans

Get what you deserve, now.

PAN ASIA
PERSONAL
LOANS

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

Credit Cards

Amazing savings on your interest charges

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

'Nivasa' Home Loans

Live like a king under your own roof

- Loan amount up to Rs 25 million with a repayment period of up to 25 years
- Available for purposes of renovation, purchase of land, investment or settlement of an existing Housing Loan
- Option to select a step –up repayment system

'Aspire' Education Loans

Unleash the power of knowledge

PAN ASIA ASPIRE EDUCATION LOANS

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

Daskam

Bonus deposit for every deposit you make

PAN ASIA 10 DASKAM Children's Savings Account

- Get an additional 10% deposit added on top of every deposit you make
- Attractive interest rate of 8% (8.33% A.E.R) on the total balance

Budget Leasing

Get your dream vehicle

BUDGET LEASING

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

Pawning

Highest value for your Gold

PAN ASIA RAN LOAN

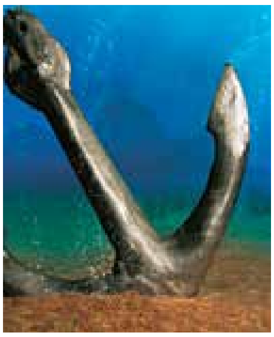
- Maximum value
- Assured security for gold
- Convenient access points

Blue Chip Money Market Savings Account

Higher returns on your company funds

PAN ASIA BLUECHIP MONEY MARKET SAVINGS ACCOUNT

- Ability to link with current accounts via sweep facility
- Higher interest rate
- Exclusively for corporate clients



Fixed Deposits

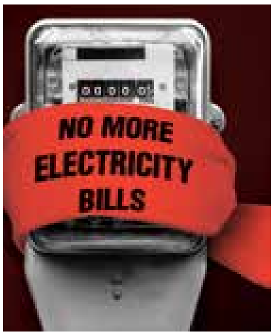
Enhanced returns on your deposits

- Attractive interest rates
- A range of maturity periods to choose from

Key Product Offerings

Current Accounts
Experience everyday convenience

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



Solar Loans
Special loan scheme to purchase domestic solar energy systems

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

SME Credit Facilities
Help your business thrive

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

Internet Banking

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

Debit Card

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

Investment Plan
The investment plan that lets you save in monthly installments

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

Branch Network

1. JAFFNA DISTRICT
Chunnakam
Jaffna
Nelliady

2. KILINOCHCHI DISTRICT
Kilinochchi

3.VAVUNIYA DISTRICT
Vavuniya

4.TRINCOMALEE DISTRICT
Trincomalee

5.ANURADHAPURA DISTRICT
Anuradhapura
Kekirawa

6. PUTTALAM DISTRICT
Chilaw
Dankotuwa
Puttalam
Wennappuwa

7. KURUNEGALA DISTRICT
Kuliyapitiya
Kurunegala

8. MATALE DISTRICT
Dambulla
Galewela
Matale

9. POLONNARUWA DISTRICT
Kaduruwela

10. BATTICALOA DISTRICT
Batticaloa
Kattankudy

11.AMPARA DISTRICT
Akkaraipattu
Kalmunai

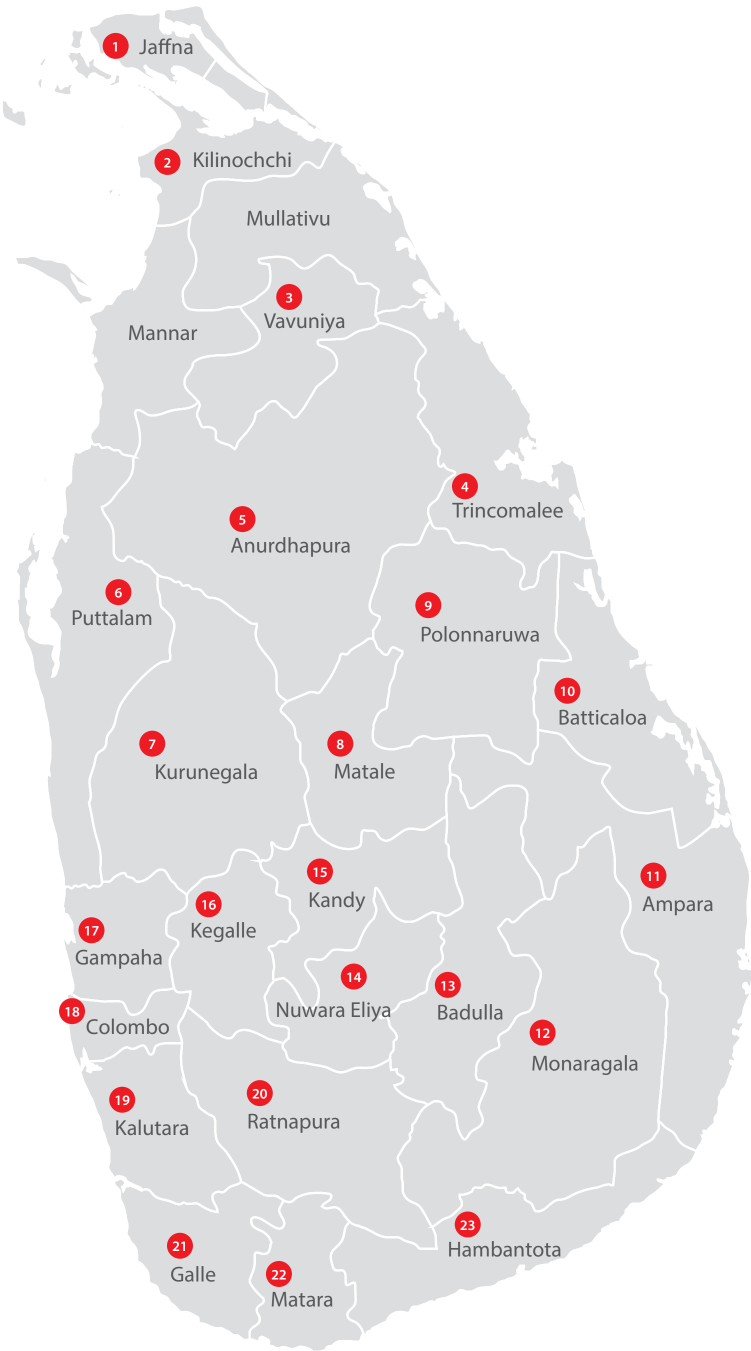
12. MONARAGALA DISTRICT
Monaragala

13. BADULLA DISTRICT
Badulla
Bandarawela

14. NUWARA ELIYA DISTRICT
Hatton

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

16. KEGALLE DISTRICT
Kegalle
Mawanella
Warakapola



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

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

19. KALUTARA DISTRICT
Horana
Kalutara
Panadura

20. RATNAPURA DISTRICT
Balangoda
Embilipitiya
Ratnapura

21. GALLE DISTRICT
Ambalangoda
Galle
Hikkaduwa

22. MATARA DISTRICT
Akuressa
Matara
Weligama

23. HAMBANTOTA DISTRICT
Ambalantota
Tangalle

Branch Network

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Akkaraipattu	060	Kaiyoom Complex Building, No. 280, Main Street, Akkaraipattu	Ampara	067-4924071	067-2279576	Weekdays : 8.30 AM to 4.00 PM
Akuressa	072	No 54, Matara Road, Akuressa	Matara	041-4935855	041-2284677	Weekdays : 8.30 AM to 4.00 PM
Ambalangoda	041	No 103, Galle Road, Ambalangoda	Galle	091-4943164	091-2258064	Weekdays : 8.30 AM to 4.00 PM
Ambalantota	053	No 155/1, Tissa Road, Ambalanthota	Hambantota	047-4931850	047-2225056	Weekdays : 8.30 AM to 4.00 PM
Anuradhapura	032	No 49, Main Street, Anuradhapura	Anuradhapura	025-4976777	025-2234763	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Badulla	045	No 22A, Bank Road (Lower Kings Street), Badulla	Badulla	055-4976777	055-2225771	Weekdays : 8.30 AM to 4.00 PM
Balangoda	062	No 84, Barns Rathwatte Mawatha, Balangoda	Ratnapura	045-4928310	045-2289081	Weekdays : 8.30 AM to 4.00 PM
Bambalapitiya	009	No 329, Galle Road, Colombo 04	Colombo	011-4374055	011-2506825	Weekdays : 8.30 AM to 4.00 PM
Bandarawela	048	No 340/1A, Badulla Road, Bandarawela	Badulla	057-4976777	057-2233554	Weekdays : 8.30 AM to 4.00 PM
Battaramulla	063	No 123C, Pannipitiya Road, Battaramulla	Colombo	011-4343259	011-2885622	Weekdays : 8.30 AM to 4.00 PM
Batticaloa	040	No 293, Trincomalee Road, Batticaloa	Batticaloa	065-4976777	065-2228486	Weekdays : 8.30 AM to 4.00 PM
Borella	031	No 996A, Maradana Road, Colombo 8	Colombo	011-4374207	011-2696461	Weekdays : 9.00 AM to 6.00 PM
Chilaw	036	No 15, Bazaar Street, Chilaw	Puttalam	032-4976777	032-2224756	Weekdays : 8.30 AM to 4.00 PM
Chunnakam	061	No 92, Dr. Subramaniyam Road, Chunnakam	Jaffna	021-4923422	021-2241889	Weekdays : 8.30 AM to 4.00 PM
Colombo Gold Centre	078	No 48 GF & 53 UF, Colombo Gold Center, Central Super Market, Pettah	Colombo	011-4061241	011-2339383	Weekdays : 8.30 AM to 4.00 PM
Dam Street	019	No 22, Dam Street, Colombo 12	Colombo	011-4374130	011-2346052	Weekdays : 8.30 AM to 4.00 PM
Dambulla	049	Jayalanka Building, Kandy Road, Dambulla	Matale	066-4928970	066-2284844	Weekdays : 8.30 AM to 4.00 PM
Dankotuwa	083	No 17 and 19, Nattandiya Road, Dankotuwa	Puttalam	031-4937130	2265790–031	Weekdays : 8.30 AM to 4.00 PM
Dehiwala	015	No 104, Galle Road, Dehiwala	Colombo	011-4374077	011-2730624	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Embilipitiya	038	No 49, New Town, Embilipitiya	Ratnapura	047-4976777	047-2261624	Weekdays : 8.30 AM to 4.00 PM
Galewela	071	No 201, Kurunegala Road, Galewela	Matale	066-4929970	066-2288320	Weekdays : 8.30 AM to 4.00 PM
Galle	025	No 32, Old Matara Road, Galle	Galle	091-4976777	091-2226835	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Gampaha	011	No 95, Colombo Road, Gampaha	Gampaha	033-4976777	033-2220048	Weekdays : 8.30AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Gampola	030	No 73E, Nuwara Eliya Road, Gampola	Kandy	081-4944625	081-2353998	Weekdays : 8.30 AM to 4.00 PM
Hatton	075	No 68, Co-Operate Square Building, Hatton	Nuwara Eliya	051-4932040	051-2225665	Weekdays : 8.30 AM to 4.00 PM

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Hikkaduwa	084	No 299/C, Galle Road, Pannamgoda, Hikkaduwa	Galle	091-4944956	091-2274084	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Homagama	076	No 381, High Level Road, Homagama	Colombo	011-4385740	011-2098484	Weekdays : 8.30 AM to 4.00 PM
Horana	077	No 95, Rathnapura Road, Horana	Kalutara	034-4941060	034-2266566	Weekdays : 8.30 AM to 4.00 PM
Ja-Ela	066	No 71, Negombo Road, Ja-Ela	Gampaha	011-4344166	011-2232824	Weekdays : 8.30 AM to 4.00 PM
Jaffna	037	No 570, Hospital Road, Jaffna	Jaffna	021-4976777	021-2221485	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kadawatha	026	No 138, Kandy Road, Kadawatha	Gampaha	011-4374185	011-2925192 011-2925187	Weekdays : 8.30 AM to 4.00 PM
Kaduruwela	052	No 918, Batticaloa Road, Kaduruwela	Polonnaruwa	027-4976777	027-2224474	Weekdays : 8.30 AM to 4.00 PM
Kaduwela	081	No 508/4, Avissawella Road, Kaduwela	Colombo	011-4328295	011-2538552	Weekdays : 8.30 AM to 4.00 PM
Kalmunai	042	No 100 & 104, Batticaloa Road, Kalmunai	Ampara	067-4976777	067-2225590	Weekdays : 8.30 AM to 4.00 PM
Kalubowila	047	No 46A, S D S Jayasinghe Mawatha, Kalubowila	Colombo	011-4374254	011-2828338	Weekdays : 8.30 AM to 4.00 PM
Kalutara	033	No 219/3, Galle Road, Kalutara South	Kalutara	034-4976777	034-2221258	Weekdays : 8.30 AM to 4.00 PM
Kandy	005	No 123, D S Senanayake Veediya, Kandy	Kandy	081-4976777	081-2232994	Weekdays : 8.30 AM to 4.00 PM
Kandy City Centre	044	No L1-5A,Lower ground floor, Kandy City Centre, No 5, Dalada Veediya, Kandy	Kandy	081-4951034	081-2205776	Weekdays : 9.30 AM to 6.00 PM Saturday : 9.30 AM to 1.00 PM Sunday : 10.00 AM to 1.00 PM
Kattankudy	057	No 365, New Kalmunai Road, Kattankudy	Batticaloa	065-4926901	065-2248468	Weekdays : 8.30 AM to 4.00 PM
Katugastota	020	No 57, Kurunegala road, Katugasthota	Kandy	081-4946135	081-2500362	Weekdays : 8.30 AM to 4.00 PM
Kegalle	027	No 72 & 74, Main Street, Kegalle	Kegalle	035-4976777	035-2221018	Weekdays : 8.30 AM to 4.00 PM
Kekirawa	067	No 91 & 93, Main Street, Kekirawa	Anuradhapura	025-4928934	025-2264598	Weekdays : 8.30 AM to 4.00 PM
Kilinochchi	043	No 161, Kandy Road, Kilinochchi	Kilinochchi	021-4925952	021-2280075	Weekdays : 8.30 AM to 4.00 PM
Kiribathgoda	054	No 67, Makola Road, Kiribathgoda	Gampaha	011-4376061	011-2911041	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Kirulapone	022	No 100, High Level Road, Kirulapone, Colombo 06	Colombo	011-4374152	011-2515227	Weekdays : 8.30 AM to 4.00 PM
Kollupitiya	003	No 450, Galle Road, Colombo 03	Colombo	011-2565565	011-2301150	Weekdays : 8.00 AM to 8.00 PM Saturday : 8.00 AM to 8.00 PM Sunday : 8.00 AM to 8.00 PM
Kotahena	014	No 215A, George R De Silva Mawatha, Colombo 13	Colombo	011-4374066	011-2346066	Weekdays : 8.30 AM to 4.00 PM
Kottawa	080	No 364/11, High level Road, Kottawa	Colombo	011-4324145	011-2172950	Weekdays : 8.30 AM to 4.00 PM
Kuliyapitiya	046	No 74 Kurunegala Road, Kuliyapitiya	Kurunegala	037-4943733	037-2284141	Weekdays : 8.30 AM to 4.00 PM

Branch Network

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Kundasale	058	No 248, Digana Road, Kundasale	Kandy	081-4951644	081-2424624	Weekdays : 8.30 AM to 4.00 PM
Kurunegala	012	No 22, Suratissa Mawatha, Kurunegala	Kurunegala	037-4976777	037-2221731	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Maharagama	023	No 171/1, Highlevel Road, Maharagama	Colombo	011-4374163	011-2838397	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Malabe	035	No 410/2, Athurugiriya Road, Malabe	Colombo	011-4374218	011-2744405	Weekdays : 8.30 AM to 4.00 PM
Matale	039	No 165, Trincomalee Street, Matale	Matale	066-4976777	066-2223007	Weekdays : 8.30 AM to 4.00 PM
Matara	013	No 45B, Anagarika Dharmapala Mawatha, Matara	Matara	041-4976777	041-2231362	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Mawanella	082	No 300, Kandy Road, Mawanella	Kegalle	035-4935291	035-2246140	Weekdays : 8.30 AM to 4.00 PM
Minuwangoda	069	No 42, Veyangoda Road, Minuwangoda	Gampaha	011-4335770	011-2295929	Weekdays : 8.30 AM to 4.00 PM
Monaragala	059	No 25, Bus Stand Road, Monaragala	Monaragala	055-4929313	055-2277223	Weekdays : 8.30 AM to 4.00 PM
Moratuwa	024	No 18, Galle Road, Moratuwa	Colombo	011-4374174	011-2641354	Weekdays : 8.30 AM to 4.00 PM
Narahenpita	021	No 526, Elvitigala Mawatha, Colombo 05	Colombo	011-4374141	011-2368667	Weekdays : 8.30 AM to 4.00 PM
Nawala	079	No 162, Nawala Road, Nugegoda	Colombo	011-4322814	011-2853043	Weekdays : 8.30 AM to 4.00 PM
Negombo	010	No 90, St. Joseph's Street, Negombo	Gampaha	031-4976777	031-2231259	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Nelliady	056	No 208A, Jaffna Road, Nelliady	Jaffna	021-4923164	021-2262969	Weekdays : 8.30 AM to 4.00 PM
Nugegoda	008	No 132C, High Level Road, Nugegoda	Colombo	011-4374044	011-2828228	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Old Moor Street	018	No 314, Old Moor Street, Colombo 12	Colombo	011-4374099	011-2392897	Weekdays : 8.30 AM to 4.00 PM
Panadura	017	No 506, Galle Road, Panadura	Kalutara	038-4976777	038-2243053	Weekdays : 9.00 AM to 4.00 PM
Panchikawatta	002	No 262 & 266, Sri Sangaraja Mawatha, Colombo 10	Colombo	011-4374011	011-2447452	Weekdays : 8.30 AM to 4.00 PM
Peradeniya	051	No 767, 769 & 769/11 Sirimawo Bandaranayake Mawatha, Kandy	Kandy	081-4951180	081-2232441	Weekdays : 8.30 AM to 4.00 PM
Pettah	004	No 64, Keyzer Street, Colombo 11	Colombo	011-4374022	011-5363652	Weekdays : 9.00 AM to 6.00 PM
Pilimathalawa	065	No 207, Colombo Road, Pilimathalawa	Kandy	081-4951870	081-2575335	Weekdays : 8.30 AM to 4.00 PM
Piliyandala	055	No 107, Horana Road, Mampe, Piliyandala	Colombo	011-4376251	011-2604070	Weekdays : 8.30 AM to 4.00 PM
Puttalam	064	No 116A, Kurunegala Road, Puttalam	Puttalam	032-4929663	032-2267967	Weekdays : 8.30 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Rajagiriya	006	No 468, Kotte Road, Rajagiriya	Colombo	011-4374033	011-2866823	Weekdays : 8.30 AM to 4.00 PM
Ratmalana	050	No 446, Galle Road, Ratmalana	Colombo	011-4374261	011-2738840	Weekdays : 8.30 AM to 4.00 PM

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Ratnapura	007	No 37, Bandaranayake Mawatha, Ratnapura	Ratnapura	045-4976777	045-2231848	Weekdays : 8.30 AM to 4.00 PM
Tangalle	074	No 3, Annapitiya Road, Tangalle	Hambantota	047-4929626	047-2241215	Weekdays : 8.30 AM to 4.00 PM
Thalawathugoda	068	No 351/E, Pannipitiya Road, Thalawathugoda	Colombo	011-4344650	011-2796016	Weekdays : 8.30 AM to 4.00 PM
Trincomalee	073	No 459, Dockyard Road, Trincomalee	Trincomalee	026-4925525	026-2225700	Weekdays : 8.30 AM to 4.00 PM
Vavuniya	034	No 14, 2nd Cross Street, Vauniya	Vavuniya	024-4976777	024-2225444	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Warakapola	070	No 139, Kandy Road, Warakapola	Kegalle	035-4928777	035-2267544	Weekdays : 8.30 AM to 4.00 PM
Wattala	016	No 218, Negombo Road, Wattala	Gampaha	011-4374088	011-2945104	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Weligama	085	No 204, Hettiveediya, Weligama	Matara	041-4933116	041-2252596	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Wellawatte	029	No 135, Galle Road, Colombo 06	Colombo	011-4374196	011-2362399	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Wennappuwa	028	No 6, Chilaw Road, Wennappuwa	Puttalam	031-4934870	031-2249556	Weekdays : 8.30 AM to 4.00 PM
World Trade Centre	001	Level 2, East Tower, World Trade Center, Echelon Square, Colombo 01	Colombo	011-4976777	011-2346053	Weekdays : 8.30 AM to 4.00 PM

Correspondent Banks

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

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

3. PERU
Banco Wiese Sudameris

4. CHILE
Banco Santander Chile

5. BRAZIL
Banco ABN Amro Real SA

6. IRELAND
National Irish Bank

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

8. FRANCE
Commerzbank AG
Union De Banques Arabes ET Francaises

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

10. LUXUMBERG
Commerzbank AG

11. SWITZERLAND
Habib Bank AG Zurich

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

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

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

15. AUSTRIA
Reichische Volksbanken AG

16. SLOVENIA
Bank Austria Creditanstalt D.D.

17. CZECH REPUBLIC
HVB Bank Czech Republic A.S

18. SWEDEN
Danske Bank AS, Sverige Filial
Svenska Handelsbanken

19. HUNGARY
Kereskedelmi ES Hitel Bank RT
Raiffeisen Bank ZRT

20. SERBIA
Unicredit Bank SRBIJA A.D

21. ROMANIA
HVB Bank Romania SA

22. EGYPT
Mashreq Bank Cairo

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

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

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

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

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

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

29. JORDAN
Standard Chartered Bank

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

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

32. BAHRAIN
Standard Chartered Bank

33. QATAR
Standard Chartered Bank
Mashreq Bank

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

35. OMAN
Standard Chartered Bank

36. SEYCHELLS
Bank of Ceylon

37. MAURITIUS
Mauritius Commercial Bank Ltd

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

39. MALDIVES
Bank of Ceylon
Bank of Maldives PLC

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

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

42. RUSSIA
- International Moscow Bank

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

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

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

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

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

48. CAMBODIA
- ANZ Royal Bank of Cambodia Ltd

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

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

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

52. PHILIPPINES
- CitiBank

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

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

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

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

57. SOLOMON ISLANDS
- Pan Oceanic Bank

58. NEW ZEALAND
- ANZ National Bank Ltd.

Corporate Social Responsibility

We at Pan Asia Bank believe that the best way to implement a meaningful CSR initiative is to integrate it into the heart of our core business. Hence, while actively promoting and engaging in social contribution activities that help strengthen communities and contribute to the enrichment of society, we make every endeavour to implement our CSR and sustainability efforts through promotion of our products and services which are built on a CSR centric foundation.

APPRECIATION OF HEROIC EFFORTS

Pan Asia Bank, in recognition of the heroic efforts made by Sri Lanka Air Force (SLAF) Airman Mr. Y. M. S Yaparathna who died during the catastrophic floods occurred in this year, handed over a financial donation to his family.

During the floods that affected several parts of the country in the month of May 2017, three forces and Police rendered an invaluable service to the affected people by engaging in rescue operations and also in providing necessary food, water and medicine to displaced people. During one of these missions a Sri Lanka Air Force (SLAF) Airman Mr. Y. M. S Yaparathna fell from a helicopter while engaging in a rescue operation in Neluwa area in Galle and a day later passed away due to the injuries he sustained.

As a CSR initiative for the Bank and also as a mark of respect for his valiant efforts, Pan Asia Bank came forward to provide financial assistance to the deceased Airman's son by donating a Daskam Children's Savings Account with an initial deposit which is expected to provide support to his further education in the future.

HEALTH AND WELFARE

Pan Asia Bank Homagama branch conducted a CSR initiative at the National Cancer Hospital in Maharagama this year too to mark the branch's 4th year anniversary. During this activity the branch staff met with the patients at the hospital and served dry rations to the patients being treated there.

FINANCIAL INCLUSION

The National Pensioners' Day was celebrated this year too at Galle District Municipal Council. The Bank made use of this occasion to create awareness about its special loan scheme 'Sammana' which is designed exclusively for retired government pensioners. At this event the staff also educated potential applicants about the special life insurance scheme that is offered with Sammana loan scheme with no medical check-ups.

Today, the process of wealth creation is measured not just in terms of return on investment but also in terms of a corporate's impact on society & the environment.

Hence, we will continue to embrace triple bottom-line - People, Planet and Profit - in our broader set of responsibilities towards our stakeholders around us and the environment.

Our future CSR activities will be driven not just by how much we can spend but what a lasting impact we could make on our society and the environment. As our Chief Executive Officer said in his annual review of operations, we at Pan Asia Bank do not believe in activities for the sake of publicity and marketing but we will do things that are closer to our heart.

Human Capital

Maintaining a strong focus on creating a high performance culture underpinning the Pan Asia Bank's Human Resource efforts has been a continued commitment to embed its corporate culture and values in all people-related activities and processes. Acting both as a strategic partner and as the facilitator for the Bank's human capital management, we provided a clear framework during the year 2017, to help managers be accountable for making the right people-related decisions, setting the standards and tone for those decisions and intervened when the standards and corporate values are not followed.

We say we understand our people better and put them at the centre of all decisions we take because we know our people are our core competence and they will perhaps become the single most crucial differentiator in service delivery in the not so distant future.

As the custodians of our customers' hard earned money, we believe it's the trusted relationships that matter and such relationships could only be built by the people.

How we did this is a story that deserves sharing with you, our valued stakeholders.

HUMAN RESOURCE AGENDA - 2017

In building a better bank, Pan Asia Bank's people agenda in 2017 played a significant part in executing the Bank's strategy aligned to the following three key goals;

- Transforming the Bank in terms of its business, process and an enabling performance driven culture;
- Resolving issues and shortcomings of the past;
- Making the Human Resources fit for the future.

A crucial aspect of Pan Asia Bank's business transformation includes the restructuring of its business divisions and infrastructure functions.

In 2017, the focus was on successfully planning and implementing the significant people aspects of this restructuring in close collaboration with the respective divisions/functions and other stakeholders.

During this process, the HR function played and will continue to play a crucial role in managing this change in a responsible manner as part of the Bank's strategy.

Strategically approaching the workforce planning with a long term focus led to the development and introduction of specific workforce management tools. These will enable the Bank to predict its future workforce needs better as well as develop, retain, move and hire employees in line with future business demand.

HR GOALS AND STRATEGIES

In accomplishing these broad level HR goals, we rolled out the following strategies during 2017.

(1) Talent acquisition and opportunities provided for young graduates and college leavers

Amid the Bank's ongoing transformation, the Bank maintained a balanced approach to talent acquisition.

While it seeks to fill job openings internally whenever possible to facilitate redeployment and support employees' career development, the Bank is also committed to bringing in the necessary skills via external lateral hires and junior talent to position itself for long-term success.

One of the key strategic decisions we took during 2017 was to ensure that Pan Asia Bank has a steady flow of junior employees annually so that the Bank remains nimble and change becomes part of the routine.

In 2017, we hired 116 young talents inclusive of university graduates, who started their programme with an orientation event.

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

In addition to sessions with senior leaders and activities centered on Bank's corporate culture and values, the new hires also gained insights into the business divisions and infrastructure functions in various activities and workshops.

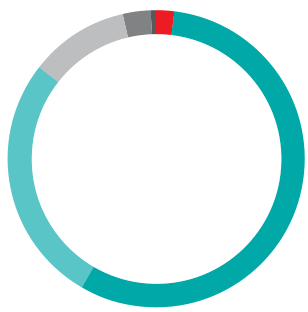
Following the induction event, they went through a classroom-based training program for up to one week comprising lectures, case studies and presentations. The workshop-based training and familiarisation is followed by a 12 to 24 month continuous development program, anchored in the Bank's values and beliefs, providing new hires with technical as well as professional skills to launch their careers successfully.

Youngest Talent Pool in the Industry

We at Pan Asia Bank boast of having the youngest talent pool in the industry as over 58% of our employees are 30 years and below.

This in fact is a significant strength to the Bank, as its young cadre equips the Bank to respond quicker to industry volatility in order to execute strategies and develop a learning organisation.

ANALYSIS BY AGE



Below 20 years	2.04%
21-30 years	56.45%
31-40 years	27.24%
41-50 years	10.67%
51-60 years	3.19%
Above 60 years	0.41%

Human Capital

This also demonstrates that the Bank has effectively merged its 'Generation Y' which consists of the larger percentage of the total cadre with their older counterparts to deliver exemplary results which are a sine-qua-non in today's context of multi-generational workforce.

The Bank also recruited and selected experienced retired bankers on board to lead certain key areas of the Bank.

(2) Introduction of a new performance management system

At Pan Asia Bank, 'creating a performance driven culture' did not merely limited to a statement. We walked the talk.

During 2017, an "on-line appraisal system" based on Key Performance Indicators aligned to the business strategy of the Bank was introduced.

The new Performance Appraisal system is based on individual Key Performance Indicators (KPIs) cascading down from the overall corporate objectives and the KPIs.

This enabled a closer and more direct link between performance and pay in line with the Bank's corporate culture and values, and to promote sustainable performance at all levels of the organisation.

The performance management process comprises KPI-setting early in the year, a mid-year review and a year-end review, with employees' self-assessment playing a critical role.

In 2017, the entire corporate management team was assigned KPIs individually. The Bank's financial targets and action points in the business strategy of the Bank were converted to KPIs and assigned to all key management personnel, in the first instance.

The Bank's overall goals were assigned to Chief Executive Officer as his KPIs and in turn his KPIs were assigned to respective business heads and support unit heads. The department heads in turn, cascaded down their KPIs to managers and their subordinates. In 2017, KPIs were set for the entire staff from the CEO, all the way down to the tellers in a branch.

A culture of sustainable performance remains essential for Pan Asia Bank's long-term success and good relationship with its stakeholders. Ownership and accountability for driving a culture that reflects appropriate conduct and exceptional integrity lies with the respective business divisions and infrastructure functions, with each consistently applying four central guiding standards of culture: active and visible leadership, empowering and effective management, productive people practices that inspire employees, and responsible and sustainable business practices.

These guiding standards which are aligned with the strategic aspirations of the Bank and its core principles of positive conduct and integrity are endorsed by the Board of Directors by approving a number of revised policies/ procedures relating to people management during the year.

(3) Aligning the reward system to evolving requirements

Compensation plays an integral role in the successful delivery of Pan Asia Bank's strategic objectives.

Attracting and retaining the most capable employees is central to the Bank's compensation strategy. The cornerstone of this is the concept of 'Pay For Performance', within a sound risk management framework and with due consideration of market factors and societal values.

As the organisation seeks to align compensation to evolving external and internal expectations, reward structures are regularly reviewed and changed as needed.

This allows for greater transparency in compensation decisions as well as more time to assess full-year performance and strike an appropriate balance between rewards for employees and those for the Bank's shareholders.

Linking compensation with performance, Pan Asia Bank in 2017, established a close link between employees' compensation and their performance and behaviour at all levels and across all divisions of the organisation.

This takes into consideration a host of factors including, but not limited to, the Bank's overall performance, branch/unit performance and the employee's individual performance.

The newly introduced, 'Performance Bonus Scheme' reflects the performance of Pan Asia Bank, tying individual variable pay component more closely to the Bank's results and acknowledging each employee's contribution.

The second component is more discretionary and recognises team performance in the context of overall branch/unit performance as against set KPI accomplishment.

(4) Strengthening internal career mobility

Internal mobility plays a vital role for the Bank to keep expertise, experience and talent within the organisation.

Therefore, it is committed to filling vacant positions - at all levels of seniority - with suitable internal candidates whenever possible. In accordance with the Bank's revised hiring policy, all open positions are advertised to internal staff first and exclusively for at least two weeks before any external candidates can be sought.

In 2017, most of the vacant positions were filled with internal candidates, restricting external recruitment to a minimum and limiting to expertise not found within. Prioritising internal candidates for vacant positions is designed to help employees affected by restructuring measures to find new roles within the organisation.

In addition, under newly introduced 'Staff Movement Policy', the Bank seeks to promote cross-functional moves to enable employees to expand their skills and experience in order to have more rounded careers. This focus on internal mobility and re-deployment has contributed to the relatively low voluntary staff turnover rate (employee attrition) by providing opportunities for employees to pursue their career ambitions within the Bank.

In line with its long-standing commitment to internal career mobility, Pan Asia Bank is offering its employees and managers' advice and information through various channels, including PABNET and individual conversations on development opportunities.

As it works to reach its strategic goals, Pan Asia Bank has maintained a carefully balanced approach to external talent acquisition. While the Bank seeks to fill job openings internally whenever possible, it is also committed to bringing in the necessary skills and capabilities via external hires that will help position the organisation for long-term success.

(5) Anchoring the values and beliefs in all people processes

We concentrated on anchoring the values and beliefs in all people processes - from recruitment to performance management, talent development, promotions and remuneration by way of reviewing prevailing policies and educating employees on newly introduced changes.

In 2017, recruitment and referral processes and policies were strengthened to ensure new employees fulfill the Bank's requirements on conduct and living the corporate values.

Also, the annual performance management cycle focused as much on how employees go about their work as on the results they achieve. Pan Asia Bank places increasing importance on managing and developing employee performance holistically and regularly giving feedback and taking appropriate actions.

All talent development programmes have a strong culture component as part of their curriculum.

When employees are being considered for promotion, it is now standard for managers to assess how candidates demonstrate the values and beliefs in their daily business. Effective consequence management as well as escalation and sanctioning mechanisms are basic conditions for cultural change.

The Bank has improved its processes and practices and installed clear escalation mechanisms to ensure compliance, investigate misconduct and take disciplinary action as required.

(6) Employee involvement in decision making

In 2017, Pan Asia Bank concluded a series of highly visible internal awareness campaigns ensuring employees actively engage with a direct discussion with the CEO and top management on how to improve Bank's performance.

Essentially, the Bank focuses on resolving issues and sharing knowledge by encouraging our employees to deal with the top management honestly, openly and with mutual trust and respect.

Furthermore, the Bank takes prompt action to address and resolve problems which may arise in relation to frequent discussion and employee associations.

Two of such forums available in the Bank to facilitate this open discussion with the management are;

a) Joint Consultative Council (JCC)
b) Coffee with CEO

a) Joint Consultative Councils (JCC)

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

The JCC has made a valuable contribution towards fostering enhanced employee relations over the years.

The JCC meetings held quarterly enabled the Bank to address matters of mutual interest through positive relations formed between the employees and the management.

The committee of the JCC constitutes employees from the grades of Assistant Manager and below, whilst the Corporate and Senior Management members participate by invitation to address matters of mutual interest and is chaired by the Director/CEO.

b) Coffee with CEO

Meanwhile for the purpose of receiving direct feedback from employees in the front line and junior grades, in regard to Bank's new initiative, ongoing projects and performance issues , the CEO invites them for a meeting with him.

Human Capital

Such meetings are well attended and the suggestions are made and decisions are taken then and there.

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

(7) Increased focus and investment on training & development

Pan Asia Bank is a firm believer in a future ready workforce as a linchpin for organisational success and its future sustainability.

With this strong belief in mind, the Bank's training faculty in 2017 embarked on a host of training and people development projects with a heavier than usual investment on this area as the bank is well aware of the both the short and long term results it could yield from such investments in people.

The Bank seeks to build the capabilities of managers and staff to help them develop both professionally and personally and to position the organisation for future success. In 2017 the talent and development activities are aligned to three priorities:

- Building leadership capabilities and developing future leaders
- Promoting continual professional and personal development for all employees
- Fostering an environment that supports sustainable performance

Building Leadership Capabilities and Developing Future Leaders

Pan Asia Bank takes a holistic approach to leadership development, which encompasses the following elements: a strong focus on corporate culture in the form of its values and beliefs, individual leadership capabilities, personal factors, a growth mindset and scheme-based learning.

The Bank is continuously evolving its offering for managers at all levels of the organisation. In 2017, the HR function made strides in further driving leadership assessment and succession management, helping to deliver the reorganisation of Bank's corporate management team as well as senior management changes in the second half of the year, reducing complexity in the management structure.

In line with Bank's goal to strengthen management and leadership capabilities in times of significant change, Pan Asia Bank identified potential leaders /successors for key management positions and arranged training, coaching and challenging work exposure to them.

Promoting Professional and Personal Development for All Employees

Throughout the year, all training and development activities were recalibrated and, specifically, a new set of leadership development programs were launched.

This also includes a stronger focus on enabling managers to deliver a more active and more rounded approach to performance management to ensure they are well-equipped to lead the Bank to future success.

The Bank promotes the continuous professional and personal development, to enable employees to maximise their potential and get the most out of their career.

Total investment in training was Rs. 21 million in 2017. The Bank maintained a broad offering of programmes, with overall improvement in attendance compared to 2016.

In accordance with the strategic priorities of Pan Asia Bank, there has been a greater focus on regulatory and compliance and Service Quality enhancement topics.

Fostering an Environment that Supports Sustainable Performance

In order to ensure the Bank operates with a pool of talent who can fill in the future leadership vacuums, the Bank took succession planning and building a talent pool as key priorities in 2017.

The Bank was able to identify successors for all its key management personnel positions and had taken necessary steps to develop these leaders by providing excessive training.

In addition to above, the Bank was able to identify staff in each grade, who are high performers as well as who can be developed to be of high potential resources in each area of the Bank. This identified talent pool was provided with special programmes which will develop their leadership and managerial skills. Retention plans are under way for the identified talent and they will be continuously monitored on their performance and the progress.

Besides, the Bank's management trainee programmes is one of the most comprehensive in the industry under which they are exposed to a two year training period in every area of banking before being absorbed in to permanent cadre.

The Bank understands the prevalent challenge of a dearth in key talent in the industry and thus significantly invested in building the talent pool.

Shift Towards Internal Trainers

A crucial shift in the whole training and development policy in 2017 was that the Bank consciously increased its dependency on the Bank's internal trainers' faculty to conduct the trainings to ensure a higher return on investment.

This was possible due to the past two years of careful development with a heavy investment on the internal trainee pool through the Train the Trainer programme.

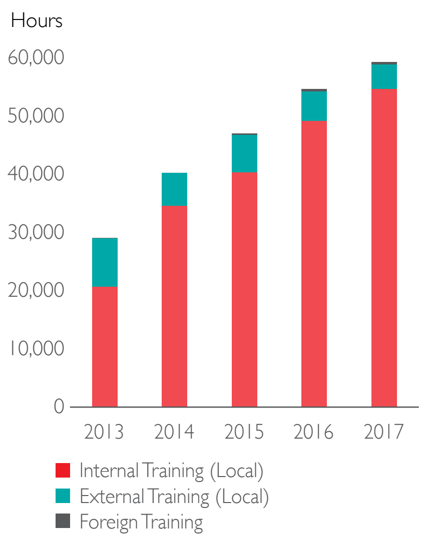
Now they have been entrusted with the areas where they are specialised in to conduct the trainings to the staff.

Continuous Increase in Training Hours

The Bank spent as many as 59,275 training hours in 2017 on training.

Training Category	2013	2014	2015	2016	2017
Internal Training Hours (Local)	20,656	34,523	40,292	49,183	54,631
External Training Hours (Local)	8,390	5,712	6,478	5,042	4,270
Foreign Training Hours	-	-	277	451	374
Total Training Hours	29,046	40,235	47,047	54,676	59,275

TOTAL TRAINING HOURS



(8) Employee Engagement Programmes

Each year the Bank organises several employee events with the objective of boosting employee morale.

All employees look forward to these events and they contribute immensely towards improving performance and developing team spirit of the employees while promoting goodwill between management and employees.

In this respect the Bank continued to conduct those innovative employee engagement initiatives with much enthusiasm during 2017 as illustrated.

Quiz and New Year Celebrations

'Pan Asia Bank Intellectuals', the inter branch / departmental quiz competition and Avurudu Celebrations were held in April for the third consecutive year at Golden Rose Hotel Boralesgamuwa.

The event was immensely successful marked by the overwhelming participation of over 100 teams and nearly 750 enthusiastic employees. It was a unique occasion where the intellectual competition was followed by the New Year celebrations with many exiting Aurudu games and cultural activities, which proved to be very effective in enhancing employee engagement and was enjoyed by all.

Vesak Lantern Competition

Each year the Human Resources Department organise the Vesak Lantern Competition in keeping with its traditions and festivities. The year under review the competition was confined to only our branch network in view of the staff restructuring of Departments in Head Office.

Human Capital

Poson Bakthi Gee

In keeping with its tradition Pan Asia Bank conducted a 'Poson Bakthi Gee Saraniya' on June 6 at its Head office to mark Poson Poya Day. Over 40 staff members trained by Visharada Sampath Sri Chaminda of the Rupavahini Corporation and SLBC orchestra participated in this event. It was followed by the 'Ice Cream Dansala' organised by the HR Department which was patronised by a large number of people including employees from the Head Office and branches apart from the general public.

Newsletter - Pan Asia Connect

'Pan Asia Connect', the Bank's newsletter is an effective communications tool which was introduced for the first time in 2014. The bank released 3 issues covering vital information on its activities during the period under review.

22nd Anniversary Celebrations

Pirith sermon followed by an almsgiving was held at Head Office on 27th and 28th of October to commemorate the Bank's 22nd Anniversary. Hindu, Catholic and Islamic ceremonies were also held during this period to mark the 22nd anniversary of the Bank.

Long Service Awards

Felicitation ceremony was organised to recognise 52 numbers of long standing employees who had served the Bank for over 10, 15 and 20 years respectively during this year. The ceremony was held at the Bank's Head Office on November 2017 to honour those employees who contributed to make Pan Asia Bank the dynamic and innovative organisation it is today. The recipients were awarded with Gold sovereign, cash tokens and certificates to recognise their valuable contribution to the Bank.

Seasonal Fairs in April and December

Seasonal fairs were held in April and December 2017 providing opportunities for suppliers to sell their goods to employees at specially discounted rates. The fairs are greatly appreciated and looked forward to by the employees.

Dinner Dance

The Bank's Year End Dinner Dance was an elegant affair and was enjoyed by all employees. This year it was organised under a novel concept, which was themed 'Bollywood Dreams' by the Pan Asia Sports club held at Waters Edge, Battaramulla on 25th November 2017. The event was an immense success as the highest number of participation in the history of Pan Asia Bank dinner dance of over 850 participants.

Christmas Carols

The annual Christmas carol service was presented by the Bank's choristers along with the arrival of Santa. The service was held at the Kollupitiya branch on 21st December 2017. It was witnessed by many employees and other stakeholders of the Bank.

Kiddies Party

The Kiddies Christmas party organised by Pan Asia Bank Sports Club is an eagerly anticipated annual event of both the employee and their offspring.

This year's Kiddies party was organised under the theme of 'Disney' was held at the Head Office premises and was attended by over 400 employees and their families. There were many exciting events such as carnival games, cartoon characters, peddling boats, mini golf, Tea Cup Merry Go Round which made this year's Christmas party all the more exciting.

(9) Recognition of our progress in HR

SLITAD Peoples Development Award

Pan Asia Bank was awarded with a Gold award for people development at the recently held SLITAD People Development Awards 2017, organised by the Sri Lanka Institute of Training & Development (SLITAD) for the third consecutive year. This is the premier awards program that recognises 'Best Practices' in the human resources development among the Sri Lankan business enterprises and the Bank has progressed from winning a Silver Award in 2015 to win a Gold in 2017.

Risk Management

VISION AND CULTURE

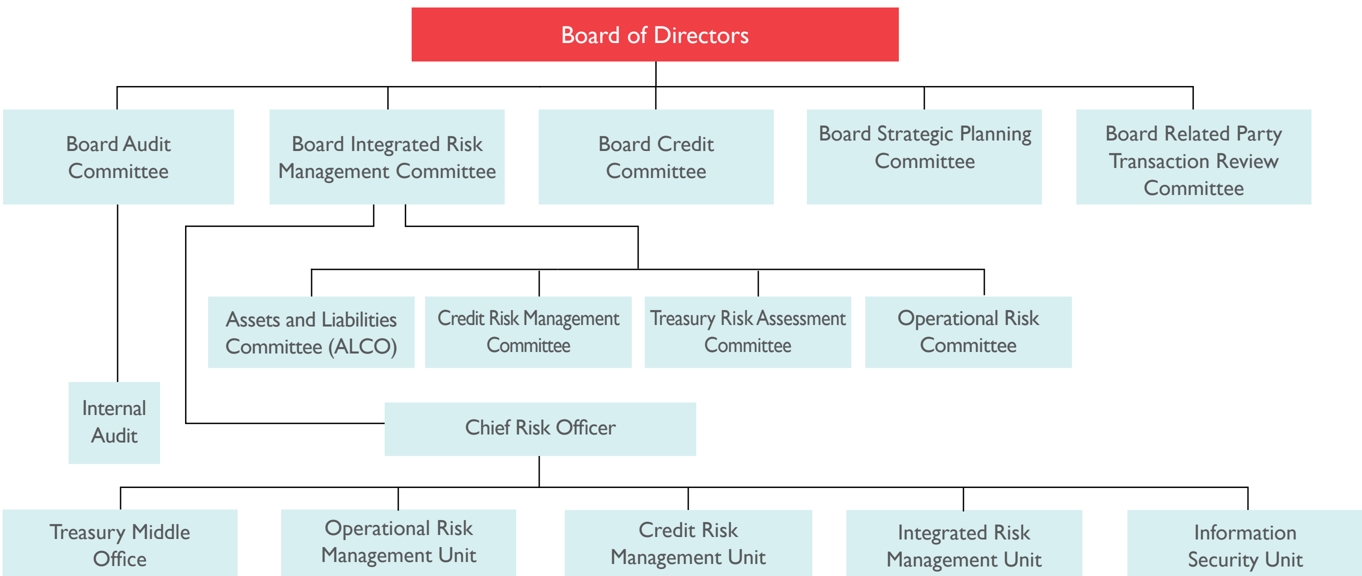
Every business faces risks that present threats to its success. In its broadest sense, risk is defined as the possible destruction associated with a situation - the product of impact and probability. Effective risk management by way of adapting industry best practices, using processes, methods and tools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

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

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

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

The responsibility of understanding the risks assumed by the Bank and ensuring



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

CREDIT RISK

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

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

Credit Risk Management Committee

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

CREDIT CONCENTRATION

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

SECTOR CONCENTRATION

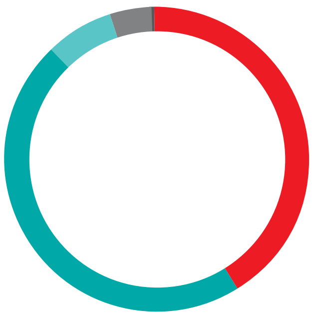
The Bank's sector concentration is in par with the widely accepted norms, risk appetite and regulatory requirements directed by the regulator. Exposure to each sector is closely monitored by the Board Integrated Risk Management Committee against the predetermined limits. Exposures which exceed the predetermined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

Risk Management

SECTOR WISE CONCENTRATION

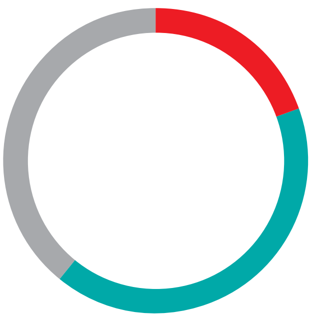
Agriculture & Fishing	10.10%
Manufacturing	9.82%
Tourism	3.65%
Transport	1.10%
Construction	26.19%
Traders	16.01%
New Economy	0.76%
Financial and Business Services	10.18%
Infrastructure	0.24%
Others	21.95%

RISK RATING WISE CONCENTRATION



Grade 1	41.71%
Grade 2	46.76%
Grade 3	7.29%
Grade 4	4.10%
Grade 5	0.14%

SEGMENT WISE CONCENTRATION



Corporate	19.68%
SME	41.22%
Retail	39.10%

GEOGRAPHICAL CONCENTRATION

Central	8.17%
Eastern	2.02%
North Central	2.58%
North Western	4.09%
Northern	1.89%
Sabaragamuwa	3.08%
Southern	5.62%
Uva	1.57%
Western	70.98%

MARKET RISK

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

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

The categories of market risk of the Bank are:

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

Market Risk Governance

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

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

Value at Risk (VaR)

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

- Historical simulation
- Monte Carlo simulation
- Parametric method

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

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

Stress Testing

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress-testing methodology is applied to trading and non trading books.

Regular stress-tests are carried out on liquidity risk (both bank specific and market specific scenarios), foreign exchange risk and equity risk.

LIQUIDITY RISK

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

Assets and Liabilities Committee (ALCO)

The Bank's exposure is controlled by limits approved by the Board which are monitored by the Assets and Liabilities Committee. ALCO overlooks the management of the Bank's overall liquidity position, and is responsible for Liquidity Risk and Interest Rate 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 Head of Treasury, Chief Financial Officer, Chief Risk Officer, Manager-Treasury - Settlements, Chief Dealer & Senior Manager -Treasury Middle Office. The Committee shall work closely with BIRMC and senior management and make recommendations on behalf of BIRMC within the frame work of authority and responsibilities assigned to committee.

Treasury Middle Office (TMO)

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

This was further strengthened during the year under review. Key monitoring activities of Market Risk/Middle Office include:

- Daily monitoring of adherence to Board approved counterparty limits and exposure limits set by the Central Bank of Sri Lanka (CBSL) such as net open position limit.
- Monitoring activities prescribed by CBSL such as Liquidity Ratio, Reserve Requirements etc.
- Monitoring of trading platform conversations including take profit and loss limits and monitoring of voice conversations of dealing staff.
- Marked to market calculations of trading, investment and pawing/ran loan portfolios.
- Monitoring of Primary Dealer Unit (PDU) transactions

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

The Bank will continue to strengthen its Middle Office function in 2018 by further strengthening its market risk assessment and monitoring activities.

OPERATIONAL RISK

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

Objectives and Benefits

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

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

- **Identifies the Risk Exposures**
  Operational Risk Management Framework enables the Bank to identify measure, monitor and control the inherent risks of the business/operations units to mitigate losses.
- **Develops Visibility**
  The Operational Risk Management Strategy provides visibility to the ongoing risk management efforts and brings high risk areas to the focus of management and enhances capability to compile and submit reports to appropriate risk management committees and forums and the regulator.
- **Risk Smart Workforce**
  The application of Risk Management Framework and strategy support a cultural shift in the Bank to have risk smart employees and a risk sensitive work environment, which help the Bank to have a competitive edge in the market.
- **Personal Accountability of Employees**
  Operational Risk Management Framework allows the management to better incorporate accountability into the work environment and individual performance of employees.
- **Efficient Allocation and Optimum Usage of Bank's Capital**
  Under the local regulatory directions, the Banks are required to maintain capital on Operational Risk and further require banks to apply more advanced approaches to calculate the capital requirements. With streamlined risk management processes the Bank strives

Risk Management

for efficient allocation of risk sensitive capital.

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

Philosophy and Principles

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

The internal operating policies of the Bank's Operational Risk Management Framework are outlined in the Operational Risk Management Policy which is approved by the Board of Directors and annually reviewed and updated.

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

An Operational Risk Management Sub Committee is established within the Bank consisting of management personnel in operations and related activities chaired by the Chief Risk Officer of the Bank. The Sub Committee is responsible, accountable and answerable to the Board Integrated Risk Management Committee (BIRMC).

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 Risk. The department is involved in completing Risk and Control Assessments (RCA) for business/ operations units of the whole bank.
- Operational Risk related incident reports are investigated and required remedial actions are recommended and reported to relevant Key Management Personnel.
- Significant risk exposures are reported to business/ operations units as and when identified.
- Approved key risk indicators are managed through data gathering and report to BIRMC on a quarterly basis.
- The Chief Risk Officer has an effective monitoring mechanism of operational risk by way of active communications and discussions with employees attached to the Operational Risk Management unit and Manager - Operational Risk.
- Operational Risk Management Unit provides continuous training to 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 faced on identified risks. In addition activities to be outsourced and cost effective controls are recommended to relevant business/ operations unit to minimise any future losses.
- Introduction of Stress Testing on Operational Risk Losses is now conducted quarterly. The results are tabled at the Board Integrated Risk Management Committee.
- Minimise the financial impact of operational risk related losses through adequate monitoring, follow-up and utilisation of insurance cover.

Operational Risk Management Sub Committee

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

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

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

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

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

The second line of defense comprises the Risk Control Owners supported by their respective control functions. Risk Control Owners are responsible for ensuring that the residual risks within the scope of their responsibilities remain within risk appetite. 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 second line control functions must be independent of the businesses they control, to ensure that the risk types are defined as mentioned above.

The third line of defense is the independent assurance provided by the Internal Audit function. Its role is defined and overseen by the Board Audit Committee.

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

INSURANCE

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

THE BUSINESS CONTINUITY PLAN (BCP)

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

DUE DILIGENCE TESTS ON ACTIVITIES OUTSOURCED

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

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

INFORMATION SECURITY RISK

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

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

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

STRATEGIC RISK

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

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

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

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

Risk Management

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

GOVERNANCE

Corporate Governance

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

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

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

BOARD COMMITTEES

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

Board Audit Committee - Pages 108 & 109.

Board Integrated Risk Management Committee - Page 110.

Board Human Resources and Remuneration Committee - Page 111.

Board Nomination Committee - Page 112.

Board Credit Committee - Page113.

Board Strategic Planning Committee - Pages 114 & 115.

Board Related Party Transactions Review Committee- Page 116.

MAJOR STEERING INSTRUMENTS ON GOVERNANCE

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

External

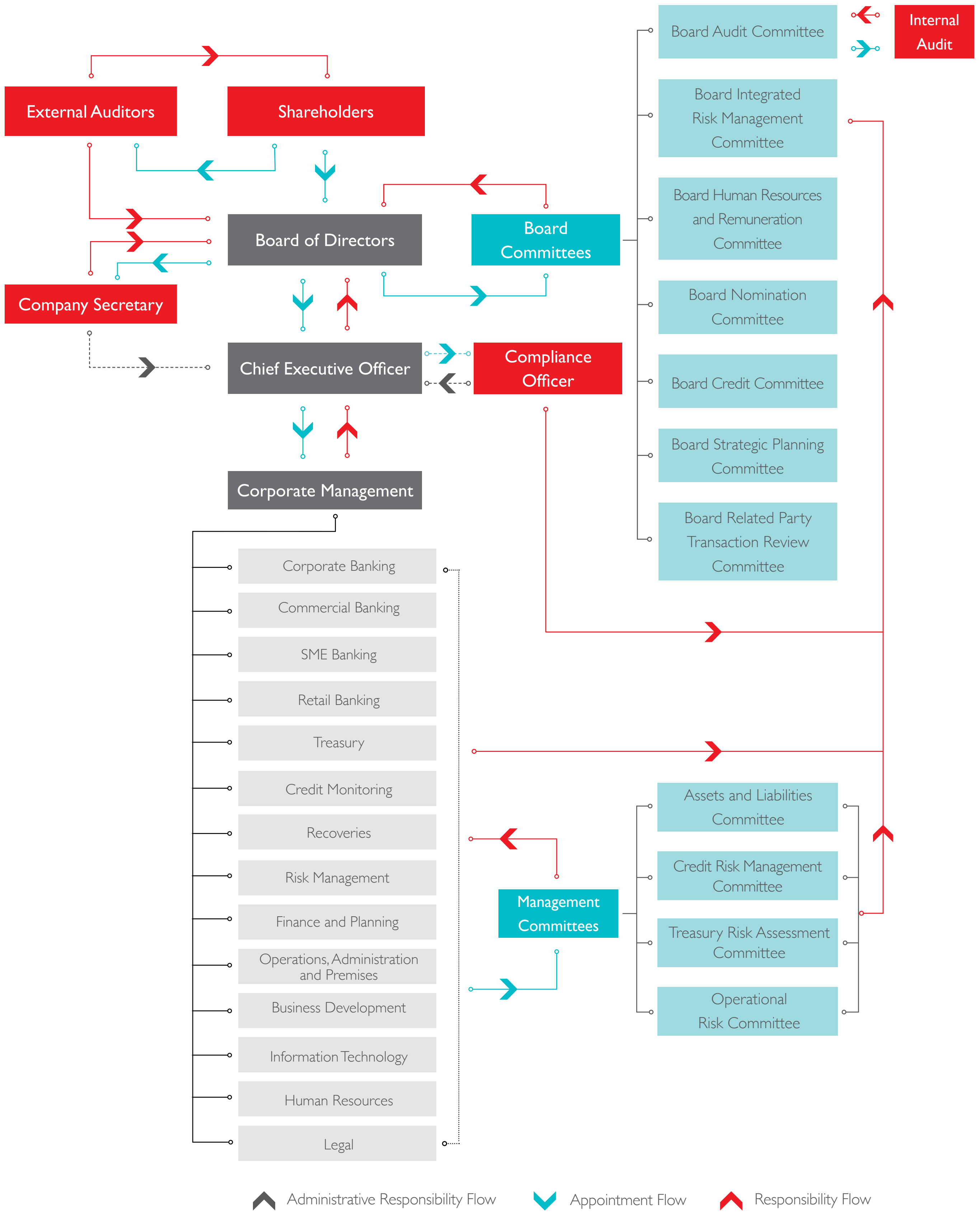
- Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks as amended subsequently
- Banking Act No. 33 of 1988 and Directions, Guidelines And Circulars issued under Banking Act
- Companies Act No. 07 of 2007
- Code of Best Practice on Corporate Governance jointly issued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

Governance

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

Internal

GOVERNANCE STRUCTURE



Corporate Governance Report

REGULATORY FRAMEWORK

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

Further to the above, the Code of Best Practice on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka is also followed by the Bank in order to achieve and maintain the highest standards of Corporate Governance to ensure greater transparency.

However, the Bank's compliance with CSE Listing Rules on Corporate Governance, has not been disclosed in the Annual Report separately, as Listed Banks are exempted from complying with the due to its compliance with the Corporate Governance Principles specified in Section 3 (1) to 3(8) of the Banking Act Direction No.11 of 2007 (as amended subsequently) on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka.

EXTERNAL AUDITORS' REVIEW ON COMPLIANCE WITH DIRECTION NO. 11 OF 2007 ON CORPORATE GOVERNANCE

Messrs Ernst & Young, our external auditors annually carry out a review of the Bank's compliance with the Corporate Governance Principles specified in Section 3 (1) to 3 (8) of the Banking Act Direction No.11 of 2007 (as amended subsequently) in accordance with the Sri Lanka Standard on Related Services 4400 (SLSRS 4400) and provides a report of factual findings on the extent of Bank's compliance with the said Directions. The external auditors carried out this procedures in respect of the year 2017 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) and their report is given in page 107 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 the Board approved Strategic Plan. These strategic objectives are communicated to relevant staff at regular briefing sessions and discussion meetings and then cascaded down to all levels. The corporate values which are derived from vision and mission statements are communicated to all staff via e-mails and at the various meetings and forums.
b.	Approve the overall business strategy of the Bank including the overall risk policy, and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Complied with	The overall business strategies of the Bank set by the Board in consultation with Corporate Management are focused on promoting sustainability and profitable growth of the Bank. The Board approved strategic plan which contains measurable goals for 2018-2022 period is in place. The business strategy is reviewed on a quarterly basis with updates. The Board approved the annual budget 2018 which is derived from the Bank's strategic plan. Risk management policies and procedures are approved by the Board and monitored continuously. These are reviewed on an annual basis and revised on a need basis.

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 Credit, Market, Operational, Liquidity, Strategic, Information security and Compliance etc and appropriate strategies have been adopted based on the risk appetite of the Bank. Further, appropriate risk culture has been promoted across the Business and other oversight functions ensuring their functions in line with the agreed risk tolerance.
d.	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	Complied with	A Shareholder communication policy approved by the Board is in place. The Customer Charter sets key standards of fair banking practices envisaged by customers when they undertake transactions with the Bank .
e.	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with	The Bank has a separate Internal Audit Department which directly reports to the Board Audit Committee. The Board Audit Committee relies on the Internal Audit Department to determine the adequacy and the integrity of the Internal Control Systems and Management Information Systems.
f.	Identify and designate Officers Performing Executive Functions of Licensed Commercial Banks as referred to in the Banking Act Determination No. 03 of 2010 on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks as 'Key Management Personnel' of the Bank.	Complied with	'Officers Performing Executive Functions' as referred to in the Banking Act Determination No. 03 of 2010 on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks have been identified as 'Key Management Personnel' of the Bank.
g.	Define the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel.	Complied with	The Board shares its responsibilities as a team and depending on specific skills and expertise they are appointed to different Committees to manage the affairs of the Bank. Defined areas of authority and responsibilities have been approved by the Board. The responsibilities and authority of Chief Executive Officer and other Key Management Personnel are also defined.
h.	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy.	Complied with	Key Management Personnel are present or are called in for discussions at Board Meetings and Board committee meetings as and when the need arises to explain matters relating to their areas. The Affairs of the Key Management Personnel are monitored by the Board.
i.	Periodically assess the effectiveness of the Board Directors' own governance practices, including: i) the selection, nomination and election of Directors and Key Management Personnel ii) the management of conflicts of interests and iii) the determination of weaknesses and implementation of changes where necessary	Complied with	Nomination Committee recommends to the Board on selection, nomination and election of the Directors and the Board thereafter decides on the matter. Self assessment of the Directors are attended to by the Directors annually. This document is called 'Board performance evaluation checklist'. The Board assesses the effectiveness of its own governance practices on an annual basis.

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
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.
k.	Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with	The Board Committees on Integrated Risk Management, Related Party Transactions Review, Audit, Human Resources & Remuneration, Nomination, Credit and Strategic Planning, meet regularly. The Key Management Personnel attend these meetings to review policies, establish communication lines and monitor progress towards corporate objectives. The minutes of these Committee meetings are tabled at the Board Meetings. The Members of the Corporate Management team attend Board Meetings by invitation to make presentations on their respective areas as an when required.
l.	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with	The Board Secretary furnishes Directors a set of rules with regard to regulatory directions and requirements on their appointment. They are also briefed about developments in the regulatory environment at Board Meetings to ensure that their knowledge is updated regularly to facilitate effective discharge of their responsibilities. The Compliance Officer submits reports on regulatory requirements to the Board Integrated Risk Management Committee enabling them to identify the regulatory environment. The Chairman, CEO and Directors maintain a good relationship with the regulators with regard to strategic matters of the Bank while the Compliance Officer maintains effective relationship with the regulator with regard to all Compliance matters.
m.	Exercise due diligence in the hiring and oversight of External Auditors.	Complied with	The Board Audit Committee is responsible for the hiring and oversight of the external auditor. The Audit Committee Charter/Terms of Reference approved by the Board specifies these requirements.
3(1)(ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions.	Complied with	The Chairman and the CEO are appointed by the Board. The functions and responsibilities of the Chairman and the CEO have been defined and approved by the Board.
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied with	12 Board Meetings were held during the year and the regulation has been complied with. The attendance of the Board and the Board Committee meetings are given on page 104.

Section	Principle	Degree of Compliance	Remarks
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	Board Meeting Notice and Board Papers are circulated to Directors 7 days prior to the Board Meeting providing all Directors and opportunity to attend.
3(1)(vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' Meetings through an alternate Director shall, however, be acceptable as attendance.	Complied with	Board Meetings have been duly attended by all the Directors as identified in page 104.
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.

Corporate Governance Report

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.

Section	Principle	Degree of Compliance	Remarks
3(1)(xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/ their duties to the Bank.	Complied with	Approved Board procedure includes a provision to enable the directors to seek independent professional advice at the Bank's expense.
3(1)(xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or Related Parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board Meeting, where independent Non - Executive Directors who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board Resolution in relation to which he/ she or any of his/ her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board Meeting.	Complied with	The Board procedure includes provisions to manage conflicts of interests of Directors. The Bank follows guidelines issued by the Director Bank Supervision with regard to Related Party transactions and directors abstain in voting and take part in discussions where issues or items pertaining to conflict of interest are discussed.
3(1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied with	The Board has a formal schedule of mandatory matters specifically reserved for the Board, apart from the other Board Papers that are included in every Board meeting.
3(1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	Complied with	The Bank is solvent and no situation arisen where its solvency has been in doubt. The Board is aware of the requirement to inform the Director Banking Supervision of the situation of the Bank prior to taking any decisions or action, if the Bank considers that the procedures to identify when the Bank is or is likely to be unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
3(1)(xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with	The Bank is in compliance with the Capital Adequacy Ratio requirements stipulated by the Central Bank of Sri Lanka and other prudential grounds.
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 78 to 104 of Annual Report.
3(1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied with	Self assessment of each director is performed annually and filed with the Company Secretary.
3(2)	**The Board's Composition**		
3(2)(i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with	10 Directors constitute the Board at present. The Board constituted of 11 Directors as at 31st December 2017.
3(2)(ii)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied with	The Company Secretary monitors the service period of Directors. There are no Directors serving for more than 9 years as at to date.
3(2)(iii)	An employee of a Bank may be appointed, elected or nominated as a Director of the Bank provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Complied with	9 out of 10 Directors are Non - Executive Directors hence, this does not exceed one-third of the number of Directors of the Board as identified in page 104.
3(2)(iv)	The Board shall have at least three Independent Non - Executive Directors or one third of the total number of Directors, whichever is higher. A Non – Executive Director shall not be considered independent if he/she:	Complied with	There are 4 Independent Non - Executive Directors on the Board at present as identified in page 104. There were 5 Independent Non - Executive Directors as at 31st December 2017.
a.	has direct and indirect share holdings of more than 1 per cent of the Bank.	Complied with	Currently no Director holds more than 1% Shareholding.

Section	Principle	Degree of Compliance	Remarks
b.	currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3(7) hereof, exceeding 10 percent of the regulatory capital of the Bank.	Complied with	The Bank has not come across any situation as such during the year 2017.
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 2017.
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 2017.
e.	represents a specific stakeholder of the Bank.	Complied with	One Non Executive Director represents a specific stakeholder of the Bank.
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 per cent 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 per cent 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.

GOVERNANCE

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
3(2)(v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	Complied with	The Company Secretary ensures that the alternate Director appointed to represent an Independent Director is also an Independent Director.
3(2)(vi)	Non - Executive Directors shall be persons with credible track records and/ or have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance and resources.	Complied with	The Board considers Nomination Committee recommendation prior to considering the appointment of Non - Executive Directors.
3(2)(vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non - Executive Directors.	Complied with	Required quorum is complied with.
3(2)(viii)	The independent Non – Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non - Executive Directors and Independent Non - Executive Directors in the annual Corporate Governance Report.	Complied with	Disclosed in the Annual Report in page 104 " Present composition of Directors".
3(2)(ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied with	The Board and the Nomination Committee has a procedure in place.
3(2)(x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	Complied with	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 2018.

Section	Principle	Degree of Compliance	Remarks
3(2)(xi)	If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders'	Complied with	All Director resignations and removals are duly communicated to the relevant regulatory authorities as per Colombo Stock Exchange regulations. Mr. Tharana Thoradeniya resigned during the year. Mr. Eshana De Silva resigned upon completing his term of 9 years and Mr. Harris Premaratne retired reaching 70 years of age.
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(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/reduce the Board's ability to discharge its functions.

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Section	Principle	Degree of Compliance	Remarks
3(4)(iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with	The Board periodically reviews and approves the delegation arrangements in place and ensures that the extent of delegation addresses is the needs of the Bank whilst enabling the Board to discharge their functions effectively.
3(5)	**The Chairman and Chief Executive Officer**		
3(5)(i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied with	The roles of Chairman and Chief Executive Officer are separated and not performed by the same individual.
3(5)(ii)	The Chairman shall be a Non - Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Complied with	The Chairman is not an Independent, Non-Executive Director. Therefore Mr. Mohan Abeynaike, Independent Non-Executive Director continues to serve as the "Senior Director". 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.

Section	Principle	Degree of Compliance	Remarks
3(5)(v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied with	The Company Secretary circulates a formal agenda prior to the Board Meeting. This agenda is approved by the Chairman of the Board.
3(5)(vi)	The Chairman shall ensure that all directors are properly briefed on issues arising at Board Meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with	The Chairman ensures that the Board is adequately briefed and informed regarding the matters arising at the Board. Board Papers are sent seven days prior to the meeting in order for Directors to request any other information if necessary. Management information is provided to Directors for the Board meeting and Committee meetings enabling them to assess the stability and performance of the Bank.
3(5)(vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Complied with	This requirement is addressed in the self evaluation process.
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 Non - Executive Directors actively contribute to make decisions at Board level.
3(5)(ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with	The Chairman is a Non - Executive Director and therefore does not get involved in executive functions.
3(5)(x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with	The Chairman communicates with the shareholders at the Annual General Meeting. All shareholders have access to the Company Secretary at any given time.
3(5)(xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	Complied with	The Chief Executive Officer functions as the apex executive in charge of the day to day management.

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Section	Principle	Degree of Compliance	Remarks
3(6)	Board Appointed Committees		
3(6)(i)	The Bank shall have at least four Board Committees as set out in Directions 3(6) (ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each Committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc. under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Complied with	The Board has established an Audit, Nomination, Human Resources & Remuneration, Integrated Risk Management, Credit, Strategic Planning and Related Party Transactions Review Committees. All Board Committees submit minutes to the Board. Each Committee report is published in the Annual Report on pages 108 to 116.
3(6)(ii)	Audit Committee		
a.	The Chairman of the Committee shall be an Independent Non - Executive Director who possesses qualifications and experience in accountancy and/ or audit.	Complied with	The Chairman of Audit Committee is an Independent Non Executive Director and a Fellow of the Institute of Chartered Accountants of Sri Lanka whose qualifications and experience are disclosed in page 26 of the annual report.
b.	All members of the Committee shall be Non - Executive Directors.	Complied with	All 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 it's recommendations on the following; (i) the appointment of the External Auditors and services to be provided are in compliance with the relevant statutes (ii) the implementation of the CBSL guidelines issued to Auditors from time to time (iii) the application of the relevant accounting standards (iv) the service period, audit fee and any resignation or dismissal of the Auditors. Further, the Committee ensures that the service period of the engagement of the External Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the Audit before the expiry of three years from the date of the completion of the previous term.

Section	Principle	Degree of Compliance	Remarks
d.	The Committee shall review and monitor the external Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with	The Committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with Sri Lanka Auditing Standards.
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.

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

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

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Section	Principle	Degree of Compliance	Remarks
k.	The Committee shall consider the major findings of internal investigations and management's responses thereto.	Complied with	Major findings of internal investigations and management's responses thereto are considered by the Committee and also minuted.
l.	The Chief Financial Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present	Complied with	The Chief Financial Officer, the Assistant General Manager - Internal Audit and representatives of external auditors normally attends monthly committee meetings. The CEO and the members of the Corporate and Senior Management attend meeting upon invitation. The Committee met with external auditors independently without the executive management being present on two occasions.
m.	The Committee shall have: (i) explicit authority to investigate into any matter within its Terms of Reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with	The Board Audit committee has (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.
n.	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with	The Audit Committee met 12 times during the year and the committee's conclusions are recorded in the minutes.
o.	The Board shall disclose in an informative way, (i) details of the activities of the Audit Committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings	Complied with	The details of the Committee are disclosed in the Annual Report, pages 108 and 109. Details of attendance by individual Directors in page 104 of the Annual Report.

Section	Principle	Degree of Compliance	Remarks
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 Assistant General Manager - Internal Audit records and keeps Minutes of the Committee Meetings.
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 Whistleblowing Policy was reviewed and approved by the Committee. The Board Audit Committee acts as the key representative body for overseeing the Bank's relationship with external auditors.
3(6)(iii)	Human Resources and Remuneration Committee		
a.	The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank.	Complied with	The key functions of the Human Resources and Remuneration Committee are disclosed in Annual Report Page 111 under "Board Human Resources and Remuneration Committee Report".
b.	The Committee shall set goals and targets for the Directors, Chief Executive Officer and the Key Management Personnel.	Complied with	The goals and targets for the Chief Executive Officer and the Key Management Personnel are documented. This requirement is not applicable for Non-Executive Directors.
c.	The Committee shall evaluate the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with	The Committee evaluates the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determines the basis for revising remuneration, benefits and other performance based incentives.
d.	The Chief Executive Officer shall be present at all meetings of the Committee, except when matters relating to the Chief Executive Officer are being discussed.	Complied with	The Chief Executive Officer attends all meetings and he shall be excused when matters relating to him being discussed.

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

Section	Principle	Degree of Compliance	Remarks
3(6)(v)	Integrated Risk Management Committee (IRMC)		
a.	The Committee shall consist of at least three Non - Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied with	The Committee consists of three Non-Executive Directors appointed by the Board, Chief Executive Officer and Chief Risk Officer. The Committee is supported by Chief Manager - Credit Risk, Senior Manger - Credit Risk, Senior Manager - Treasury Middle Office, Manager - Operational Risk, Manager - Integrated Risk, Information Security Officer and Senior Manager - Compliance. The Committee invites any Key Management Personnel for participation at the meetings depending on the subject matters in the agenda.
b.	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and group basis.	Complied with	Continuous assessments and monitoring are being carried out on credit, market liquidity, operational and strategic risks, and other contingencies, based on pre determined risk indicators and goals/ limits, reports are submitted to the Committee for deliberations and corrective actions if required.
c.	The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset and Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with	The Committee reviews reports and minutes submitted by the management committees such as Credit Risk Management Committee, Assets & Liabilities Committee, Treasury Risk Assessment Committee, and Operational Risk Committee against pre determined quantitative and qualitative risk limits.
d.	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied with	Risk indicators are reviewed against the risk goals and regulatory limits with adequate deliberations during the Committee meetings and corrective actions are initiated for any deviations.
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with	The Committee had four meetings during the year and deliberations are made on whole risk spectrum encountered by the Bank.

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Section	Principle	Degree of Compliance	Remarks
f.	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied with	The Committee has taken appropriate actions through Human Resources Department for any failures to identify and monitor specific risks in managing the business of the Bank. No such instances reported during the period under review.
g.	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with	Risk assessment report along with the minutes of the each Committee meeting is placed before the Board at the Board Meeting immediately following the Committee meeting for deliberations and concurrence.
h.	The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied with	An independent compliance function is in place led by a dedicated Compliance Officer to assess and ensure Bank's business activities are complied with all laws, regulatory guidelines, internal policies and control procedures.
3(7)	**Related Party Transactions**		
3(7)(i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "Related Parties" for the purposes of this Direction (a) Any of the Bank's subsidiary Companies (b) Any of the Bank's associate companies (c) Any of the Directors of the Bank (d) Any of the Bank's Key Management Personnel (e) A close relation of any of the Bank's Directors or Key Management Personnel (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest	Complied with	A Board approved policy on Related Party transactions is in place to avoid any conflicts of interest that may arise from any transaction of the Bank with any person. The Board Related Party Transactions Review Committee had four meetings during the year and deliberations are made with the identified related party transactions in the presence of respective Department Heads.

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 favorable treatment" than that accorded to other constituents of the Bank carrying on the same business. In this context, "more favorable 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 conflicts of interest that may arise in 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 that what is applied to transactions between the Bank and its unrelated customers.
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.		

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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 Related Party Policy document. This policy elaborates the approved securities and limits for such related parties. Any accommodation granted to related party is sanctioned by the Board of Directors with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation.
3(7)(v) a.	Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied with	The Bank follows directions, guidelines and circulars issued by Central Bank of Sri Lanka.
b.	Where such security is not provided by the period as provided in Direction 3(7) (v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.		

Section	Principle	Degree of Compliance	Remarks
c.	Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.		
d.	This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.		
3(7)(vi)	A Bank shall not grant any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	Complied with	No accommodation has been granted to any employee of the Bank on more 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)	The Board shall ensure that: (a) Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that (b) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English	Complied with	Relevant Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.

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Section	Principle	Degree of Compliance	Remarks
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	Compliance with applicable accounting standards and regulatory requirements have been reported under the 'Directors' Responsibility for Financial Reporting' on page 124 the 'CEO's and CFO's Responsibility Statement' on page 125 and Note No. 02 on 'Statement of Compliance' to the Financial Statements on page 134.
b.	A report by the Board on the Bank's internal control mechanism that confirms that the Financial Reporting System has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied with	The Directors' Statement on Internal Controls Over Financial Reporting is included in the Annual Report 2017 on pages 105 & 106.
c.	The external Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after 31st December 2008.	Complied with	Assurance Report by auditors under Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 – Assurance Reports for Banks on Directors' Statement on Internal Controls has been obtained and included in the Annual Report 2017 on page 107.
d.	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank.	Complied with	Details of the Directors are given on pages 26 & 27 under profiles of the Directors. The aggregate value of Directors' transactions with the Bank has been disclosed in Note. 46.4 to the Financial Statements on page 202. The aggregate value of the remuneration paid (salaries, fees and benefits) to the Board of Directors (including CEO) is disclosed in note No. 46.3 to the Financial Statements on page 202.
e.	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.	Complied with	See table below

Category of Related Party Transaction	Rs. Mn	%
Directors and Close Family Members	3.25	0.03
KMP & Close Family Members	79.05	0.68
Entities Controlled by Directors, Shareholders owing Material Interest and Close Family Members	4,460.24	38.49

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.111.50 million. Retirement Benefits - Rs. 5.39 million. The aggregate value of transactions by Key Management Personnel with the Bank as at the year end are as follows; Loans, Advances and Credit Card Balances - Rs. 67.06 million. Deposits - Rs. 137.24 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 78 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	Relevant disclosures are included on page 126 of the Annual Report.
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.

GOVERNANCE

Corporate Governance Report

Attendance of Directors During the Year 2017

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	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
Dimuth Prasanna	12	12	-	-	10	10	04	04	03	03	-	-	-	-	-	-
Sarath Rangamuwa	12	12	-	-	10	09	-	-	-	-	-	-	-	-	-	-
Mohan Abeynaike	12	12	12	12	-	-	-	-	03	03	06	06	04	04	04	04
Takashi Igarashi	12	12	-	-	-	-	04	01	-	-	-	-	-	-	-	-
Toyohiko Murakami	12	12	12	09	-	-	-	-	-	-	-	-	-	-	-	-
A. A. Wijepala	12	12	12	12	-	-	-	-	-	-	02	02	04	04	04	04
Jayaraja Chadrasekera	12	12	-	-	10	09	-	-	-	-	-	-	-	-	-	-
Nihal Kekulawala	12	12	12	11	-	-	04	04	03	02	04	04	04	04	-	-
Aravinda Perera	05	04	-	-	05	05	-	-	-	-	02	02	02	01	-	-
Nimal Tillekeratne	09	09	08	08	07	07	03	03	03	03	03	03	03	03	03	03
Eshana De Silva	07	07	-	-	05	05	-	-	-	-	04	04	-	-	02	02
Tharana Thoradeniya	08	07	-	-	06	05	-	-	-	-	-	-	02	01	-	-
Harris Premaratne	12	12	-	-	09	09	-	-	03	03	-	-	-	-	02	02

Present Composition of Directors

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

Directors' Statement on Internal Control Over Financial Reporting

Responsibility

In line with the Banking Act Direction No.11 of 2007, section 3(8)(ii)(b), the Board of Directors present this report on Internal Control over Financial Reporting.

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

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

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

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

Key Features of the Process Adopted in Applying and Reviewing the Design and Effectiveness of the Internal Control System over Financial Reporting

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

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The Annual Audit Plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings.

- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, Regulatory Authorities and the Management and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on pages 108 and 109.

- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. In adopting Sri Lanka Accounting Standards comprising LKASs and SLFRSs, progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure were made whilst further strengthening of processes namely review and disclosures with regard to financial risk management, fair value and management information.

- The 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 2017 in connection with the internal control system over financial reporting will be dealt with in the future.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of

Directors' Statement on Internal Control Over Financial Reporting

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 Control over Financial Reporting included in the Annual Report of the Bank for the year ended 31st December 2017 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 control over financial reporting of the Bank. Their Report on the Statement of Internal Control over Financial Reporting is given on page 107 of this Annual Report.

By Order of the Board

Mohan Abeynaike
Chairman - Board Audit Committee

Dimuth Prasanna
Chairman

Nimal Tillekeratne
Director / Chief Executive Officer

Colombo, Sri Lanka
16th February 2018

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

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 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
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 105 and 106 of the Annual Report for the year ended 31st December 2017.

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 Responsibilities and Compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 - Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

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 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 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.

Our Conclusion

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

Ernst & Young

16th February 2018
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 present.

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

Toyohiko Murakami
Non - Executive Director

A.A.Wijepala
Independent Non - Executive Director

Nihal Kekulawala
Independent Non - Executive Director

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

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

Role of the Committee

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

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

The Committee is empowered by the Board to:

- Monitor the integrity of the Financial Statements and review of significant reporting judgements contained therein to be in compliance 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.
- Make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
- Review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process.
- Ensure that Bank's policies are firmly committed to the highest standards of good Corporate Governance Practices and operations conform to the highest ethical standards, in the best interest of all stakeholders.

Meetings

The committee held 12 meetings during the period under review. Assistant General Manager - Internal Audit functioned as the secretary to the committee. The committee has met with the external auditors independently twice within the year.

The Chief Executive Officer, Chief Risk Officer, Chief Financial Officer and Deputy General Manager - Branch Credit attend the meetings by invitation. Members of the Senior Management of the Bank were invited to participate at meetings as and when required. 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 Committee reviewed the Quarterly and Annual Financial Statements of the Bank prior to approval by the Board.

Regulatory Compliance

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

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 based on a Risk Based Planning methodology for risk assessment of auditable areas. The Committee regularly reviewed and monitored the internal audit coverage of the annual audit plan.

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

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

External Audit

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

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

The Management Letter of the External Auditors and the responses of the management thereto were discussed, in the presence of relevant business heads and senior management along with the external auditor. The committee further followed up on the rectification taken by the management in improving the financial reporting based on the Management Letter of 2016. The Committee reviewed the non-audit services provided by the Auditors to ensure that such services were not falling within the restricted services or provision of such service will not impair the External Auditors' independence and objectivity.

The Audit Committee having evaluated the independence and performance of the External Auditors has recommended to the Board of Directors that M/s Ernst & Young, Chartered Accountants, be reappointed as the auditors of the Bank for the financial year ending 31st December 2018, subject to the approval of the Shareholders at the Annual General Meeting.

Conclusion

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

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.

On behalf of the Board Audit Committee

Mohan Abeynaike
Chairman
Board Audit Committee

Colombo, Sri Lanka
16th February 2018

Board Integrated Risk Management Committee Report

Composition of the Committee

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

Nihal Kekulawala
Chairman, Independent Non - Executive Director

Dimuth Prasanna
Non - Executive Director

Takashi Igarashi
Independent Non - Executive Director

Nimal Tillekeratne
Director/Chief Executive Officer

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

Responsibilities and Meetings

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

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

Meetings are conducted once a quarter and during the year 2017 four meetings were held.

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 to ensure risk based capital adequacy.
- Determine and review the risk indicators and risk goals on a regular basis on Credit, Market, Operational and all other significant risk areas to which the Bank is exposed to.
- Peruse and review the activities and progress of under mentioned management committees set up for the management of major risks embedded in the day to day activities of the Bank.

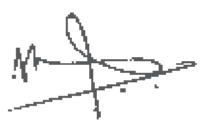
I. Assets and Liabilities Committee (ALCO)
II. Credit Risk Management Committee
III. Operational Risk Management Committee
IV. Treasury Risk Assessment Committee

- Regular review and update of all policies relating to the risk management and introduction of new risk related policies and procedures.
- Recommendation of improvements to Bank's strategy for lending, business expansion and growth, and review mitigating factors for adverse impact on Bank's overall strategy.
- Extensive deliberation on the potential risk arising from various risk drivers and take measures proactively.
- Reviews business continuity plan, business impact analysis and disaster recovery plan of the Bank.
- Ensures that adequate mechanisms are available to identify, transfer, manage and mitigate the risks identified and recognised as per Bank's risk management policies.

During the year, committee initiated following measures in addition to the regular review and management of predetermined risk goals.

- Introduction of Borrower Risk Rating Migration Analysis in order to have better understanding on the movement of the risk profile of the borrowers over a period of time.
- Review of retail product limits taking into consideration latest market developments.
- Revamping stress testing policies with more appropriate variables in view of managing risk in a more integrated manner.
- Review 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
16th February 2018

Board Human Resources and Remuneration Committee Report

Composition of the Committee

The Board Human Resources and Remuneration Committee comprises of the following Directors;

Dimuth Prasanna
Chairman, Non - Executive Director
(Appointed as the Chairman of the Committee w.e.f. 29th January 2018)

Mohan Abeynaike
Independent Non - Executive Director/ Senior Director

Nihal Kekulawala
Independent Non - Executive Director

Nimal Tillekeratne
Director/Chief Executive Officer

Harris Premaratne
Independent Non - Executive Director
(Retired from the Committee w. e. f. 28th January 2018)

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

Secretary

The Company Secretary functions as the Secretary of the Committee.

Meetings

The Committee held three meetings during the year 2017.

Functions and Responsibilities

The Key Functions of the Committee are as follows;

1. The committee shall determine the Banks remuneration policy and its specific application to Directors, Chief Executive Officer (CEO) and Key Management Personnel (KMPs)

2. The committee shall decide salaries, allowances, other cash and non-cash benefits and incentives, including terminal benefits/ pension rights etc. for the CEO and KMPs

3. Periodical review and evaluation of bank's Remuneration Policy against industry practice

4. Approving performance goals (KPI) for CEO and KMPs and performance based incentive schemes

5. Evaluating the accomplishment of set performance goals by CEO and KMPs and rewarding or giving feedback to them

6. Approving and reviewing strategic Human Resource policies of the Bank

7. Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives

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

On behalf of the Board Human Resources and Remuneration Committee

Dimuth Prasanna
Chairman
Board Human Resources and Remuneration Committee

Colombo, Sri Lanka
16th February 2018

Board Nomination Committee Report

Composition of the Committee

The Board Nomination Committee comprises of the following Directors;

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

A. A.Wijepala
Independent Non - Executive Director

Aravinda Perera
Non - Executive Director

Nimal Tillekeratne, Director / Chief Executive Officer participates at meetings by invitation.

Secretary

The Company Secretary functions as the Secretary of the Committee.

Meetings

Six Committee meetings were held during the year.

Responsibilities

The main responsibilities of the Committee are:

- To formulate and implement the procedures to select/appoint new Directors and Chief Executive Officer and Key Management Personnel.

- In the appointment of Directors, the Board proposes the names and seeks the Nomination Committee recommendation for the suitability of the persons proposed. Nomination Committee after careful consideration along with their recommendation submits the affidavit and the Declaration of the proposed Director to Central Bank of Sri Lanka for their approval, and once approval is received the Board makes the formal appointment.

- To set eligibility criteria encompassing academic and professional qualifications, experience and other attributes essential for appointment and promotion to the post of Chief Executive Officer and Key Management positions.

- To review and recommend, from time to time, the additional/ new expertise capabilities necessary and the succession plan for retiring directors and Key Management Personnel.

- To ensure, that Directors, Chief Executive Officer and Key Management Personnel are fit and proper persons to hold such positions in terms of the specified statutes and other mandatory directives.

- The Committee shall consider and recommend (or not recommend) the re- election of current directors, taking in to account the performance and contribution made by the director concerned towards the overall discharge of Board's responsibilities.

On behalf of the Board Nomination Committee

Mohan Abeynaike
Chairman
Board Nomination Committee

Colombo, Sri Lanka
16th February 2018

Board Credit Committee Report

Composition of the Committee

The Board members of the Credit Committee comprises of the following Directors;

Dimuth Prasanna
Chairman, Non - Executive Director

Harris Premaratne
Independent Non - Executive Director
(Retired from the Committee w. e. f. 28th January 2018)

Sarath Rangamuwa
Non - Executive Director

Jayaraja Chandrasekara
Non - Executive Director

Aravinda Perera
Non - Executive Director

Nimal Tillekeratne
Director/Chief Executive Officer

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

Responsibilities and Meetings

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

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

The Committee had 10 meetings during the year and minutes of each meeting were duly circulated among the committee members and management personnel for follow up actions and disbursement of credit as per the approval 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 in force within the Bank.
- Review the changes to the credit policy initiated by the management of the Bank and approve them or recommend them for the approval of the Board of Directors.
- Ensure compliance of lending activities with the approved credit policies of the Bank and statutory and regulatory requirements and guidelines.
- Review the credit portfolio through regular reports on new facilities granted, margin trading and share backed advances, advances to special segments, advances under special lending products, exposure to pawning and gold loans, watch listed accounts and monthly non performing advances report.
- Define credit approval framework and assign delegated approval limits for lending as per the credit policy of the Bank.
- Review and recommend credit proposals to the Board Related Party Transaction Review Committee or Board of Directors for which the Board approval is required as per Bank's credit policy and regulatory guidelines.
- Ensure credit risk exposures are kept within the risk appetite in order to maximise Bank's risk adjusted rate of return.
- Monitor on an ongoing basis, the Bank's credit portfolio quality, review periodic credit portfolio reports and assess the performance of the lending book.
- Review new lending products from a credit risk management perspective with appropriate controls to maintain the quality of the portfolio.
- Sanction the papers via circulation depending on the urgency of the subject matters
- Review high risk exposures periodically and take corrective action keeping them within the risk tolerance of the Bank.

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

On behalf of the Board Credit Committee

Dimuth Prasanna
Chairman
Board Credit Committee

Colombo, Sri Lanka
16th February 2018

Board Strategic Planning Committee Report

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

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

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

Composition of the Committee

The Board Strategic Planning Committee comprises of the following Directors;

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

A.A. Wijepala
Independent Non - Executive Director

Nihal Kekulawala
Independent Non - Executive Director

Aravinda Perera
Non - Executive Director
(Appointed w. e. f. 11th August 2017)

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

The profiles of the members are given on pages 26 & 27 of the Annual Report. Chief Executive Officer and Corporate Management team attend the meetings by invitation. The Chief Financial Officer acts as the Secretary to the Committee.

Roles and Responsibilities

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

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

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

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

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

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

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

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

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

4) Reviewing the appropriateness of current Vision, Mission and Strategic Positioning of the Bank.

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

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

Meetings

The Committee met four times during the year and the Committee members worked with dedication to fulfill its obligations. The attendance of the Committee members is stated in the Corporate Governance Report on page 104 of the Annual Report.

Reporting to the Board

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.

Performance

The Committee reviewed the quarterly performance of the Bank during the year. Further the Committee reviewed the Annual Budget for the year 2018 and recommended it for the approval of the Board of Directors.

As the 3 - year strategic plan developed earlier came to a completion in 2017, the Committee engaged in discussions with the Corporate Management and Strategic Planning team to determine the strategic direction for the Bank for the next 5 years which formed the basis for the development of the Strategic Plan for this period. The Committee recommended the strategic plan for the 2018 - 2022 period for the approval of the Board.

The Committee reviewed the adequacy and composition of Bank's capital structure in the context of its growth targets and recommended to the Board to infuse additional capital to maintain Bank's growth plans.

The Committee reviews its own performance, constitution and scope of work to ensure that it is operating smoothly and efficiently. Its scope also extends to making recommendations to the Board when the need arises.

On behalf of the Board Strategic Planning Committee

Mohan Abeynaike
Chairman
Board Strategic Planning Committee

Colombo, Sri Lanka
16th February 2018

Board Related Party Transaction Review Committee Report

With the view to further strengthening the monitoring mechanism for all related party transactions, the Bank has constituted the Board Related Party Transaction Review Committee to assist the Board to review all related party transactions performed by the Bank in compliance with the provisions contained in the section 9 of Colombo Stock Exchange listing rules. The committee was constituted by majority of Independent Directors of the Board.

Composition of the Committee

The Board Related Party Transaction Review Committee comprises of the following Directors;

Mohan Abeynaike
Chairman, Independent Non - Executive Director
(Appointed as Chairman w. e. f. 29th January 2018)

Harris Premaratne
Independent Non - Executive Director
(Retired w. e. f. 28th January 2018 as the Chairman and Member of the committee)

A. A. Wijepala
Independent Non - Executive Director

Jayaraja Chandrasekara
Non - Executive Director
(Appointed w. e. f. 29th January 2018)

Nimal Tillekeratne
Director/Chief Executive Officer

In addition to the above members, the committee comprises of Chief Risk Officer, Chief Financial Officer and Compliance Officer. Senior Manager - Credit Risk acts as the secretary to the Committee. The Committee invites any Key Management Personnel or any other senior management member or managers to attend the meetings getting further clarification on the subject matters.

Role of the Committee

The committee derives its operating scope and responsibilities from the Board of Directors and the Charter document of the Board Related Party Transaction Review Committee, which is subject to periodic review by the Board of Directors, clearly defines the role and the responsibilities of the committee.

The mandate of the committee includes inter-alia followings:

- To formulate and implement a well established procedure, which comprehensively adheres to the regulatory requirement of monitoring all related party transactions of the Bank.
- Independently review all accommodations to related parties and provide comments/observations to the Board of Directors prior to the final approval.
- Review all related party transactions in line with the regulatory requirements.
- Making immediate market disclosure on any applicable related party transactions as required under Section 9 of the Listing Requirements of the Colombo Stock Exchange
- Making appropriate disclosures in the annual report on related party transactions as per the regulatory guidelines.
- In the case of recurrent related party transactions, committee may set up guidelines for the Senior Management to follow up its ongoing dealings with the Related Parties, subject to annual review of such guidelines and appropriateness of the transaction.

Meetings

The Committee held three meetings during the period under review. All matters with regard to the related party transactions have been reviewed and discussed with the participation of respective heads of the departments. Minutes of the meetings have been circulated among committee members and the confirmed minutes have been submitted to the Board of Directors for necessary action.

Conclusion

The Committee ensures that the Bank adheres to the Board approved charter document on the Related Party Transaction Review Committee and all relevant regulatory guidelines when dealing with its related parties.

On behalf of the Board Related Party Transactions Review Committee

Mohan Abeynaike
Chairman
Board Related Party Transaction Review Committee

Colombo, Sri Lanka
16th February 2018

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 2017.

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 16th of February 2018.

Principle 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:

	2017 Rs. 000	2016 Rs. 000
Profit before Taxation	1,875,456	1,794,936
Taxation	(484,954)	(543,231)
Profit for the Year	1,390,502	1,251,705
Other Comprehensive Income	(30,547)	(5,312)
Retained Profit Brought Forward	4,754,101	3,711,605
Transfer to Reserve Fund	(69,525)	(62,585)
Dividend Paid	-	(147,521)
Realisation of Revaluation Reserve	6,363	6,210
Un-appropriated Profit to be Carried Forward	6,050,894	4,754,101

Financial Statements

The Financial Statements of the Bank are given on pages 130 to 207 of this Annual Report.

Income

The Bank's main income consists of interest on Loans and Advances, income from Investments and Fee based income. The summarised income could be shown between the years as:

	2017 Rs. 000	2016 Rs. 000
Gross Income	17,684,672	15,144,742

Shareholders' Funds and Reserves

The Bank's total reserves as at 31st December 2017 stood at Rs. 10,669,887,229/-. This comprises Statutory Reserve Fund of Rs. 374,106,451/-, Revaluation Reserve of Rs. 630,633,294/- and Retained Earnings of Rs. 6,050,894,180/-. The movement in Revaluation Reserve and Statutory Reserve Fund and are shown in Note 36 and 37 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 page 129. They come up for re-election at the Annual General Meeting, with the recommendation of the Board Audit Committee and the approval of the Board of Directors.

Accounting Policies

The accounting policies adopted in preparation of the Financial Statements are given on pages 134 to 149.

Directors' Interest Register

Under the provisions of Section 192 of the Companies Act No. 07 of 2007, the Interest Register is maintained by the Bank. The Directors have made the necessary declarations which are recorded in the Interest register and are available for inspection in terms of the Act. The particulars of the Directors' Interest in Contracts are given in pages 120 & 121 of the Annual Report.

Donations

Donation of Rs.100,000/- in the form of a Daskam Minor Savings Account deposit was made to the child of Sri Lanka Air Force (SLAF) airman Mr.Y.M.S.Yaparathna who sacrificed his life during a rescue operation.

Directorate

The names of the Directors of the Bank during the period from 01.01.2017 to date are given below and changes occurred in the composition of the Board during this period. The classification of Directors into 'Executive', 'Non - Executive' and 'Independent Non - Executive' Directors are given against the names as per the Central Bank of Sri Lanka (CBSL) mandatory rules on Corporate Governance under the Banking Act directions.

Annual Report of the Board of Directors' on the Affairs of the Bank

Dimuth Prasanna	Non - Executive Director since May 2012. Appointed as 'Deputy Chairman' in September 2016 up to 25th January 2017 and was appointed as 'Chairman' in July 2017.
Sarath Rangamuwa	Non - Executive Director since August 2014. Appointed as Deputy Chairman in January 2018.
Mohan Abeynaike	Independent Non - Executive Director since October 2014. Appointed as the 'Senior Director' in February 2015.
Takashi Igarashi	Independent Non - Executive Director since October 2012.
Toyohiko Murakami	Non - Executive Director since April 2013.
A. A. Wijepala	Independent Non - Executive Director since May 2015.
Jayaraja Chandrasekera	Non - Executive Director since May 2015.
Nihal Kekulawala	Independent Non - Executive Director since August 2016.
Aravinda Perera	Non - Executive Director since August 2017.
Nimal Tillekeratne	Director / Chief Executive Officer since April 2017.
Eshana De Silva	Independent, Non - Executive Director since July 2008. Appointed as 'Deputy Chairman' in April 2012 and as 'Chairman' in September 2016 and resigned in July 2017 upon completion of 9 Years.
Tharana Thoradeniya	Non - Executive Director since June 2010 and resigned in August 2017.
Harris Premaratne	Appointed as an Independent Non - Executive Director in January 2017 and as Deputy Chairman on 25th January 2017. Retired in January 2018 reaching 70 years of age.

Re-elections

In terms of Article No's. 82 and 83 of the Articles of Association of the Bank Jayaraja Chandrasekera and Nihal Kekulawala retire by rotation and being eligible offer themselves for re-election, on an unanimous recommendation by the Board of Directors.

In terms of Article 89 of the Articles of Association of the Bank Aravinda Perera being eligible offers 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 pages 120 & 121 of the Annual Report.

Directors' Interest in Shares

	No. of Shares As at 31.12.2017	No. of Shares As at 01.01.2017
Dimuth Prasanna	34,801	20,000
Harris Premeratne	-	-
Mohan Abeynaike	-	-
Takashi Igarashi	-	-
Toyohiko Murakami	-	-
Sarath Rangamuwa	-	-
A. A. Wijepala	-	-
Jayaraja Chandrasekera	100	100
Nihal Kekulawala	3,900	-
Aravinda Perera	-	-
Nimal Tillekeratne	-	-

External Auditors

In accordance with the Companies Act No. 7 of 2007, a resolution for the re-appointment of Messrs Ernst & Young Chartered Accountants, to the Bank is being proposed at the Annual General Meeting. Audit Fees and Non Audit Fees payable to Ernst & Young for the year under review amounted to Rs. 3,946,380/- and Rs. 1,226,282/- respectively.

Stated Capital

The Stated Capital of the Bank is Rs. 3,614,253,304/-. The details are given in Note 35 to the Financial Statements.

Internal Controls

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

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1998 and amendments thereto and the Listing Rules of the Colombo Stock Exchange.

Corporate Governance

Since the Licensed Commercial Banks have been exempted from the Colombo Stock Exchange Corporate Governance Rules, the Bank has complied with the CBSL, Banking Act Directions on Corporate Governance and a detailed statement is given on pages 76 to 103.

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. 134,338,177/- during 2017, details of which are given in Note 25 to the Financial Statements. Expenditure on Intangible Asset at cost amounted to Rs. 1,750,823/- during 2017, details of which are given in Note 26 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 2017 was 4,220 compared to 4,050 as at 31st December 2016. The schedule indicating the shareholder's analysis is on pages 245 to 247.

Debentures

The details of all Debentures of the Bank are given in Note 34 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

Three new branches were opened during the year under review, bringing the total number of branches to 85 at the end of 2017.

Provision for Taxation

Taxable income for the year was charged at 28% in accordance with Income tax legislations. Deferred tax was calculated based on the Balance Sheet Liability Method in accordance with Sri Lanka Accounting Standards.

Annual General Meeting

In complying with the good governance practices, the Annual Report of the Bank is dispatched to Colombo Stock Exchange and shareholders as per the regulatory requirements after the end of the financial year and completion of the audit.

The Annual General Meeting will be held at "The Kingsbury" on 29th March 2018. The Notice of Meeting can be found on page 254.

Going Concern

The Directors after making necessary inquiries and reviews including reviews of the Bank's ensuing year budget for capital expenditure requirements, future prospects and risk and cash flows have a reasonable expectation that the Bank has adequate resources to continue operations in the foreseeable future.

For and on behalf of the Board of Directors

Dimuth Prasanna
Chairman

Sarath Rangamuwa
Deputy Chairman

Nimal Tillekeratne
Director/Chief Executive Officer

Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
16th February 2018

Directors' Interest Register

Director's / Company Name	Relationship	Assets/Liabilities	Balance Outstanding as at 31.12.2017
Dimuth Prasanna			
Grandmark (Pvt) Ltd	Chairman	Deposits	134,425
Wise Property Solutions (Pvt) Ltd	Managing Director	Deposits	2,135,810
Royal Ceramics Lanka PLC	Director	Deposits	30,865,536
		Loans and Advances	19,806
Royal Porcelain (Pvt) Ltd	Director	Deposits	99,299
Rocell Bathware Ltd	Director	Deposits	426,681
Delmege Forsyth & Co. (Shipping) Ltd	Director	Deposits	22,364,817
Country Energy (Pvt) Ltd	Director	Deposits	62,612
La Fortresse (Pvt) Ltd	Director	Deposits	22,251
Delmege Insurance Brokers (Pvt) Ltd	Director	Deposits	15,683,413
Lewis Brown Air Services (Pvt) Ltd	Director	Deposits	3,293,200
Delmege Aviation Services (Pvt) Ltd	Director	Deposits	590,774
Harris Premaratne			
Softlogic Finance PLC	Deputy Chairman	Deposits	305,554,474
		Repo Borrowings	50,000,000
		Debenture Investments	28,830,000
Softlogic Capital PLC	Director	Loans and Advances	27,188,225
Softlogic Holdings PLC	Director	Deposits	34,316
Takashi Igarashi			
NWS Holdings (Pvt) Ltd	Director	Deposits	486
NWS Management Services (Pvt) Ltd	Director	Deposits	327,947
Prime Ocean Foods (Pvt) Ltd	Director	Deposits	36,133
Cey Agri Plantations (Pvt) Ltd	Director	Deposits	117
Sushiba Samurai (Pvt) Ltd	Director	Deposits	730,833
Toyohiko Murakami			
Bansei Holdings LK (Pvt) Ltd	Chairman	Deposits	402,487,364
Bansei Royal Resorts Hikkaduwa PLC	Deputy Chairman	Deposits	64,925,726
Bansei Securities Capital (Pvt) Ltd	Director	Deposits	102,673,039
		Repo Borrowings	28,006,137
Vallibel Finance PLC	Director	Deposits	500,383,183
		Repo Borrowings	375,000,000
		Loans & Advances	735,144,884
Bansei & NWS Consultancy (Pvt) Ltd	Director	Deposits	15,625
Hikkaduwa Hotel Holdings (Pvt) Ltd	Director	Deposits	2,181,396
Bansei Resorts Bentota (Pvt) Ltd	Director	Deposits	6,206,230
B R B Holidays (Pvt) Ltd	Director	Deposits	12,391
BHLK Investments (Pvt) Ltd	Director	Deposits	939,780

Director's / Company Name	Relationship	Assets/Liabilities	Balance Outstanding as at 31.12.2017
Sarath Rangamuwa			
Vallibel Finance PLC	Managing Director	Deposits	500,383,183
		Repo Borrowings	375,000,000
		Loans and Advances	735,144,884
Nihal Kekulawala			
Lanka Walltiles PLC	Director	Deposits	243,154
Continental Insurance Lanka Ltd	Director	Deposits	376,051
AMW Capital Leasing and Finance PLC	Director	Deposits	345,553
Aravinda Perera			
Royal Ceramics Lanka PLC	Managing Director	Deposits	30,865,536
		Loans and Advances	19,806
Hayleys PLC	Director	Deposits	28,093

Other Directorships

Dimuth Prasanna
Chairman

	Company Name	Position
1.	Grandmark (Pvt) Ltd	Chairman
2.	Wise Property Solutions (Pvt) Ltd	Managing Director
3.	Royal Ceramics Lanka PLC	Director
4.	Royal Porcelain (Pvt) Ltd	Director
5.	Rocell Bathware Ltd	Director
6.	Delmege Forsyth & Co. (Shipping) Ltd	Director
7.	Country Energy (Pvt) Ltd	Director
8.	La Fortresse (Pvt) Ltd	Director
9.	Delmege Forsyth & Co. (Exports) (Pvt) Ltd	Director
10.	Delmege Insurance Brokers (Pvt) Ltd	Director
11.	Rocell Properties Ltd	Director
12.	Delmege Coir (Pvt) Ltd	Director
13.	Delmege Freight Services (Pvt) Ltd	Director
14.	Delmege Air Services (Pvt) Ltd	Director
15.	Lewis Brown Air Services (Pvt) Ltd	Director
16.	Hayley's Global Beverages (Pvt) Ltd	Director
17.	Lanka Tiles PLC	Alternate Director
18.	Lanka Ceramics PLC	Alternate Director
19.	Delmege Aviation Services (Pvt) Ltd	Director

Sarath Rangamuwa
Deputy Chairman (appointed w. e. f. 29th January 2018)

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

Mohan Abeynaike
Senior Director

	Company Name	Position
1.	Asia Pacific Investments (Pvt) Ltd	Chairman
2.	Asia Pacific Films (Pvt) Ltd	Director

Takashi Igarashi
Director

	Company Name	Position
1.	Ramboda Falls Hotels PLC	Chairman
2.	NWS Holdings (Pvt) Ltd	Director
3.	NWS Management Services (Pvt) Ltd	Director
4.	Prime Ocean Foods (Pvt) Ltd	Director
5.	Cey Agri Plantations (Pvt) Ltd	Director
6.	Sushiba Samurai (Pvt) Ltd	Director

The above Directorships are as at 24th January 2018.

Toyohiko Murakami
Director

	Company Name	Position
1.	Bansei Holdings LK (Pvt) Ltd	Chairman
2.	Bansei Royal Resorts Hikkaduwa PLC	Deputy Chairman
3.	Bansei Securities Capital (Pvt) Ltd	Director
4.	Vallibel Finance PLC	Director
5.	Bansei & NWS Consultancy (Pvt) Ltd	Director
6.	Hikkaduwa Hotel Holdings (Pvt) Ltd	Director
7.	Bansei Resorts Bentota (Pvt) Ltd	Director
8.	B R B Holidays (Pvt) Ltd	Director
9.	Bentota Club Villa (Pvt) Ltd	Director
10.	BHLK Investments (Pvt) Ltd	Director

Jayaraja Chandrasekera
Director

	Company Name	Position
1.	Zenith BPO (Pvt) Ltd	Director

Nihal Kekulawala
Director

	Company Name	Position
1.	Lanka Walltiles PLC	Director
2.	Kassapa Leisure Ltd	Director
3.	Continental Insurance Lanka Ltd	Director
4.	AMW Capital Leasing and Finance PLC	Director
5.	Imani Holdings (Pvt) Ltd	Director

Aravinda Perera
Director

	Company Name	Position
1.	Royal Ceramics Lanka PLC	Managing Director
2.	Singer Finance PLC	Chairman
3.	Hayleys PLC	Director
4.	Hayleys Advantis Ltd	Director
5.	Hayleys Industrial Solutions (Pvt) Ltd	Director
6.	Fentons Ltd	Director

Harris Premaratne
Deputy Chairman (Retired w. e. f. 28th January 2018)

	Company Name	Position
1.	Softlogic Finance PLC	Deputy Chairman
2.	Softlogic Capital PLC	Director
3.	Softlogic Holdings PLC	Director
4.	Asiri Hospitals Holdings PLC	Director
5.	Asiri Surgical Hospital PLC	Director
6.	Central Hospital Ltd	Director

The above Directorships are as at 24th January 2018.

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 page 129 of the Annual Report.

In terms of Sections 150 (1) and 151 (1) of the Companies Act No. 07 of 2007, the Directors of the Bank are responsible for ensuring that the Bank prepares the Financial Statements that gives a true and fair view of the state of affairs of the Bank as at the date of the Statement of Financial Position and the profit of the Bank for the financial year ended on the date of the Statement of Financial Position and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at 31st December 2017, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended and notes thereto.

Accordingly, the Directors confirm that the Financial Statements of the Bank give a true and fair view of;

a) the state of affairs of the Bank as at the date of the Statement of Financial Position and

b) the profit of the Bank for the financial year ended on the date of the Statement of Financial Position.

The Financial Statements of the Bank have been certified by the Bank's Chief Financial Officer, the person responsible for their preparation, as required by the Act. Financial Statements of the Bank have been signed by the Chairman, the Deputy Chairman, the Chief Executive Officer and the Company Secretary of the Bank on 16th February 2018 as required by the 150 (1) of the Companies Act No. 07 of 2007.

Under 148 (1) of the Companies Act, it is the overall responsibility of the Directors to oversee and ensure to keep proper accounting records which correctly record and explain the Bank's transactions with reasonable accuracy at any time and to enable the Directors to prepare Financial Statements, in accordance with the said Act and also to enable the Financial Statements to be readily and properly audited.

The Directors in preparing these Financial Statements are required to ensure that;

I. The appropriate accounting policies have been selected and applied in a consistent manner and material departures have been disclosed and explained if any.

II. The judgements and estimates that are reasonable and prudent are made.

III. All applicable accounting standards, as relevant, have been followed.

The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements. The Financial Statements prepared and presented in the report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto and the Continuing Listing Rules issued by the Colombo Stock Exchange.

In view of this Directors have taken adequate effort on inspecting financial reporting system through Audit Committee Meetings and granting approvals for issuing of interim Financial Statements.

The Directors have also instituted an effective and comprehensive system of internal controls. This comprises internal checks, internal audits and the whole system of financial and other controls required to carry on the banking business in an orderly manner, safeguard assets, prevent and detect frauds and other irregularities and secure as far as practicable, the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2017 is given on pages 105 & 106 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 107 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 page 129 of this Annual Report.

The Directors to the best of their knowledge are satisfied that all statutory payments in relation to all regulatory and statutory authorities which were due and payable by the Bank were paid, or where relevant, provided for.

The Directors of the Bank are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board

N Fernando

Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
16th February 2018

CEO's & CFO's Responsibility for Financial Reporting

The Financial Statements of Pan Asia Banking Corporation PLC ("The Bank") for the year ended 31st December 2017 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, the 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 2017, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 105 & 106 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 107 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 page 129 of the Annual Report. The Audit Committee of the Bank meets periodically with the Internal Audit team and the independent External Auditors to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee approves the audit and non audit services provided by External Auditors, Messrs Ernst & Young, in order to ensure that the provision of such services does not impair independence of the External Auditors and does not contravene the guidelines issued by Central Bank of Sri Lanka on permitted non-audit services.

The Bank has taken appropriate action to implement New Sri Lanka Accounting Standards with effective from 1st January 2012 and all the processes are in place to address the requirements of the new Sri Lanka Accounting Standards.

We confirm to the best of our knowledge;

- The Bank has complied with all applicable laws, regulations and prudential requirements and in the opinion of the Bank's legal council, the litigations which are currently pending will not have a material impact on the reported financial results or future operations of the Bank.

- All taxes, duties, levies and all statutory payments by the Bank and all contributions, levies and taxes paid on behalf of and in respect of the employees of the Bank as at the Statement of Financial Position date have been paid or where relevant provided for.

Nimal Tillekeratne
Director / Chief Executive Officer

Lalith Jayakody
Chief Financial Officer

Colombo, Sri Lanka
16th February 2018

Bank's Compliance with Prudential Requirements

Pan Asia Bank conducts its business in accordance with the laws and regulations imposed by the regulatory authorities in line with the Bank's internal polices and codes of conduct. Compliance risk is the risk arising out of non- compliance with applicable laws, regulations, code of conduct and standard of best practice. This may result in regulatory sanctions, material financial loss or reputation loss to the Bank.

The Compliance Unit

The Compliance Unit plays a vital role in mitigating the compliance risk arising out of the day to day operations. The unit consistently assesses the Bank's compliance with laws, regulations, and statutory guidelines issued and also the internal controls and policies. The unit functions independently and is headed by the Compliance Officer who directly reports to the Board Integrated Risk Management Committee (BIRMC).

The Bank's Compliance procedures and guidelines are clearly set out in the Board Approved Compliance Policy. The Compliance Policy communicates the Bank's compliance philosophy, the basic principles governing the compliance function, as well as the broad structure and processes to ensure that Compliance Risks are addressed adequately and in a timely manner, by the relevant sections within the Bank.

Monitoring regulatory requirements under Know Your Customer (KYC), Anti Money Laundering (AML), Exchange control and FACTA are some of the key functions carried out by the Unit. Disseminating regulatory/ internal requirements to business units for embedding same with its operations and ensuring they operate within the boundaries set by the regulator and the Bank

Compliance Reporting

The compliance unit periodically prepare a detailed report, based on the sign offs given by the heads of all business units and branches on statutory and mandatory reporting requirements and the Bank's level of compliance to the Board Integrated Risk Management Committee (BIRMC) on a quarterly basis.

The Compliance Certificate includes,

- Significant changers to/Directions /new regulations
- Compliance monitoring on regulatory and AML requirements
- Significant non compliance events. Regulatory/Potential breaches
- Training/awareness undertaken and/or identification of training needs.

Compliance Culture

The Compliance Unit strives to instill an organisation wide compliance culture emphasising standards of honesty and integrity. Training programmes are carried out for all staff periodically to ensure that all employees are adequately aware of the Bank's compliance requirements, and procedures. Further all newly recruited staff members are introduced to the Banks compliance processes during the induction.

Anti Money Laundering (AML) Compliance

The Bank has established a sound framework for AML compliance based on relevant laws enacted by the Government of Sri Lanka to combat money laundering/terrorist financing and in line with the rules governing the conduct of all account relationships issued by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka.

A separate policy for AML has been approved by the Board of Directors and is reviewed periodically, while the Compliance Unit carries out sample testing bank-wide to ensure adherence.

The Bank's AML Policy establishes standards of AML compliance which applies to all branches/departments and ensures strict compliance with all existing laws and regulatory requirements.

The Bank takes all reasonable steps to verify the identity of our customers in accordance with the directions issued by the FIU. Systems are also in place to ensure that Know Your Customer (KYC) and Customer Due Diligence (CDD) information is collected and kept up-to date and that identification details are updated when changes occur. Accordingly accounts are categorised as High, Medium and Low risk and a higher level of due diligence and monitoring is carried out in high risk areas.

Monitoring and reporting of suspicious transactions which include large and structured transactions above a specified threshold as per applicable regulatory and internal guidelines is also carried out.

New Product Development Framework

All new products and procedures are carefully checked to ensure they comply with the regulatory requirements prior to approval and launch. All operating instructions for various activities, the Bank ensures that they are reviewed and signed off by Compliance, Risk Management, Legal, Finance and the Internal Audit departments.

FINANCIAL AND INVESTOR INFORMATION

Financial Calendar

2017	
1st Quarter Unaudited Interim Results 2017	May 2017
2nd Quarter Unaudited Interim Results 2017	August 2017
3rd Quarter Unaudited Interim Results 2017	November 2017
4th Quarter Unaudited Interim Results 2017	February 2018
Annual Report for Year 2017	March 2018
23rd Annual General Meeting	March 2018

2018	
1st Quarter Unaudited Interim Results 2018	May 2018
2nd Quarter Unaudited Interim Results 2018	August 2018
3rd Quarter Unaudited Interim Results 2018	November 2018
4th Quarter Unaudited Interim Results 2018	February 2019
Annual Report for Year 2018	March 2019
24th Annual General Meeting	March 2019

Independent Auditors' Report

Building a better working world

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

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

TO THE SHAREHOLDERS OF PAN ASIA BANKING CORPORATION PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Pan Asia Banking Corporation PLC, ("the Bank"), which comprise the statement of financial position as at 31st December 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 130 to 207.

Board's Responsibility for the Financial Statements

The Board of Directors ("the Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal controls as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation of the financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31st December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act No. 07 of 2007, we state the following:

a) The basis of opinion, and Scope and Limitations of the audit are as stated above.

b) In our opinion :

- 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, and
- The financial statements of the Bank, comply with the requirements of Section 151 of the Companies Act No. 07 of 2007.

Ernst & Young

16th February 2018
Colombo, Sri Lanka

Statement of Comprehensive Income

Year ended 31st December	Notes	2017 Rs.	2016 Rs.
Gross Income		17,684,671,541	15,144,742,246
Interest Income		15,616,013,593	13,366,542,935
Interest Expense		(10,909,740,117)	(8,733,164,415)
Net Interest Income	4	4,706,273,476	4,633,378,520
Fees and Commission Income		1,408,275,735	1,175,173,525
Fees and Commission Expense		(96,332,332)	(69,452,631)
Net Fee and Commission Income	5	1,311,943,403	1,105,720,894
Net Gain from Trading	6	391,397,813	275,095,387
Net Gain from Financial Investments	7	823,500	382,500
Other Operating Income	8	268,160,900	327,547,899
Total Operating Income		6,678,599,092	6,342,125,200
Impairment for Loans and Other Losses	9	494,385,950	528,108,430
Net Operating Income		6,184,213,142	5,814,016,770
Personnel Expenses	10	1,624,034,615	1,613,604,180
Other Operating Expenses	11	2,108,244,978	1,922,211,075
Total Operating Expenses		3,732,279,593	3,535,815,255
Operating Profit Before Value Added Tax and Nation Building Tax on Financial Services		2,451,933,549	2,278,201,515
Value Added Tax and Nation Building Tax on Financial Services	12	576,477,542	483,265,444
Profit Before Tax		1,875,456,007	1,794,936,071
Income Tax Expense	13	484,954,113	543,231,249
Profit for the Year		1,390,501,894	1,251,704,822
Other Comprehensive Income for the Year			
Revaluation Surplus on Property, Plant and Equipment	25	547,962,764	-
Deferred Tax Effect on Above	13	(175,463,878)	-
		372,498,886	-
Actuarial Losses on Defined Benefit Plans	33	(42,425,727)	(7,377,697)
Deferred Tax Effect on Above	13	11,879,204	2,065,755
		(30,546,523)	(5,311,942)
Other Comprehensive Income for the Year		341,952,363	(5,311,942)
Total Comprehensive Income for the Year		1,732,454,257	1,246,392,880
Earnings Per Share - Basic/Diluted	14	3.31	4.01
Dividends Per Share	15	-	-

The Accounting Policies and Notes on pages 134 to 207 form an integral part of the Financial Statements.

Statement of Financial Position

As at 31st December	Notes	2017 Rs.	2016 Rs.
Assets			
Cash and Cash Equivalents	16	1,665,040,665	1,703,449,614
Balances with Central Bank of Sri Lanka	17	6,884,017,912	6,218,564,125
Placements with Banks	18	237,368,087	75,096,992
Derivative Financial Instruments	19	16,091,393	26,279,628
Financial Assets - Held for Trading	20	4,549,189,029	629,744,707
Loans and Receivables to Banks	21	653,087,844	754,131,408
Loans and Receivables to Other Customers	22	109,139,936,050	95,833,759,322
Financial Investments - Available for Sale	23	6,157,847	6,157,847
Financial Investments - Held to Maturity	24	12,287,192,426	21,753,428,446
Property, Plant and Equipment	25	1,989,970,519	1,489,391,189
Intangible Assets	26	284,390,317	315,704,246
Other Assets	27	789,242,975	645,371,728
Total Assets		138,501,685,064	129,451,079,252
Liabilities			
Due to Banks	28	2,497,901,244	14,238,391,649
Derivative Financial Instruments	19	7,366,561	-
Due to Other Customers	29	107,193,029,640	91,456,409,639
Term Debt and Other Borrowed Funds	30	8,465,786,791	6,762,947,720
Current Tax Liabilities		550,341,567	411,032,731
Deferred Tax Liabilities	13	630,734,284	445,769,180
Other Provisions and Accruals	31	229,535,579	170,399,266
Other Liabilities	32	1,110,050,321	1,143,812,823
Debentures	34	7,147,051,848	7,950,170,874
Total Liabilities		127,831,797,835	122,578,933,882
Equity			
Stated Capital	35	3,614,253,304	1,548,965,702
Retained Earnings		6,050,894,180	4,754,101,424
Revaluation Reserve	36	630,633,294	264,496,888
Statutory Reserve Fund	37	374,106,451	304,581,356
Total Equity		10,669,887,229	6,872,145,370
Total Liabilities and Equity		138,501,685,064	129,451,079,252
Commitments and Contingencies	44	32,426,389,393	25,458,172,467

The Accounting Policies and Notes on pages 134 to 207 form an integral part of the Financial Statements.

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

Lalith Jayakody
Chief Financial Officer

The Board of Directors are responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by;

Dimuth Prasanna	**Sarath Rangamuwa**	**Nimal Tillekeratne**	**Nayantha Fernando**
Chairman	Deputy Chairman	Director/Chief Executive Officer	Company Secretary

16th February 2018
Colombo, Sri Lanka

Statement of Changes in Equity

	Notes	Stated Capital	Reserves			Total
		Ordinary Voting Shares	Retained Earnings	Statutory Reserve Fund	Revaluation Reserve	
		Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st January 2016		1,548,965,702	3,711,604,606	241,996,115	270,706,610	5,773,273,033
Profit for the Year		-	1,251,704,822	-	-	1,251,704,822
Other Comprehensive Income for the Year		-	(5,311,942)	-	-	(5,311,942)
Transfer to Statutory Reserve Fund	37	-	(62,585,241)	62,585,241	-	-
Final Cash Dividends - 2015		-	(147,520,543)	-	-	(147,520,543)
Realisation of Revaluation Reserve	36	-	6,209,722	-	(6,209,722)	-
Balance as at 31st December 2016		1,548,965,702	4,754,101,424	304,581,356	264,496,888	6,872,145,370
Profit for the Year		-	1,390,501,894	-	-	1,390,501,894
Other Comprehensive Income for the Year		-	(30,546,523)	-	372,498,886	341,952,363
Transfer to Statutory Reserve Fund	37	-	(69,525,095)	69,525,095	-	-
Realisation of Revaluation Reserve	36	-	6,362,480	-	(6,362,480)	-
Rights Issue of Shares	35	2,065,287,602	-	-	-	2,065,287,602
Balance as at 31st December 2017		3,614,253,304	6,050,894,180	374,106,451	630,633,294	10,669,887,229

The Accounting Policies and Notes on pages 134 to 207 form an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31st December	Notes	2017 Rs.	2016 Rs.
Cash Flows from Operating Activities			
Profit Before Tax		1,875,456,007	1,794,936,071
Adjustments for:			
Other Non Cash Items Included in Profit Before Tax	42	768,636,943	795,988,820
Change in Operating Assets	42	(18,418,100,235)	(14,719,170,509)
Change in Operating Liabilities	42	4,569,929,335	17,568,934,772
Interest Expense on Debentures		739,574,778	796,010,093
Interest Expense on Term Borrowings		407,222,309	155,779,260
Defined Benefits Paid	33	(30,578,917)	(11,697,957)
Income Tax Paid		(336,144,052)	(205,159,294)
Net Cash Flows Generated from / (Used in) Operating Activities		(10,424,003,832)	6,175,621,256
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	25	(134,338,177)	(213,585,135)
Proceeds from the Sale of Property, Plant and Equipment		125,468	6,208,819
Net Proceeds from Financial Investments - Held to Maturity		9,466,236,020	(7,086,146,708)
Purchase of Intangible Assets	26	(1,750,823)	(19,289,296)
Net Cash Flows Generated from / (Used in) Investing Activities		9,330,272,488	(7,312,812,320)
Cash Flows from Financing Activities			
Proceeds from the Right Issue	35	2,065,287,602	-
Net Proceeds from Term Borrowings	30	1,074,850,000	2,579,332,500
Redemption of Debentures	34	(750,000,000)	-
Interest Paid on Debentures		(792,693,804)	(760,424,906)
Interest Paid on Term Borrowings		(379,850,308)	(148,917,580)
Dividends Paid to Equity Holders		-	(147,520,543)
Net Cash Flows Generated from Financing Activities		1,217,593,490	1,522,469,471
Net Increase in Cash and Cash Equivalents		123,862,146	385,278,407
Cash and Cash Equivalents as at 1st January		1,778,546,606	1,393,268,199
Cash and Cash Equivalents as at 31st December	42	1,902,408,752	1,778,546,606

The Accounting Policies and Notes on pages 134 to 207 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 Reporting Entity

Pan Asia Banking Corporation PLC ("the Bank") is a public quoted company incorporated on 6th March 1995 with limited liability and domiciled in Sri Lanka. It is a Licensed Commercial Bank registered under Banking Act No. 33 of 1988 and amendments thereto. The registered office of the Bank is situated at No. 450, Galle Road, Colombo 03. The staff strength of the Bank as at 31st December 2017 is 1,472 (2016 : 1,458). The Ordinary Shares and Debentures of the Bank have a listing on the Colombo Stock Exchange.

The Bank does not have an identifiable parent of its own. Further, the Bank does not hold any investments in the form of subsidiary, joint venture or associate.

1.2 Principal Activities and Nature of Operations

The principal activities of the Bank continued to be Banking and related activities such as accepting deposits, personal Banking, trade financing, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease and hire purchase financing, pawning and gold loans, issuing of local and international credit cards, tele-banking facilities, internet and SMS Banking.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Bank for the year ended 31st December 2017 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 comply with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. The Financial Statements includes Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows and Notes to the Financial Statements.

2.2 Basis of Measurement

The Financial Statements have been prepared on a historical cost basis, except for Financial Assets Held for Trading, Available for Sale Financial Investments, Derivative Financial Instruments, Defined Benefit Obligations and the Freehold Land and Building stated at revalued amounts which are the fair values at the date of revaluation as explained in Note 25 to the Financial Statements, all of which have been measured at fair value. The Financial Statements are presented in Sri Lankan Rupees except when otherwise indicated.

2.3 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

2.4 Approval of Financial Statements by the Board of Directors

The Financial Statements for the year ended 31st December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 16th February 2018.

2.5 Presentation of Financial Statements

The Bank presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 43.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.6 Significant Accounting Judgements, Estimates and Assumptions

In the process of applying the Bank's accounting policies, management has exercised judgements and estimates in determining the amounts recognised in the Financial Statements. The most significant uses of judgements and estimates are as follows:

2.6.1 Going Concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.6.2 Classification of Financial Assets and Liabilities

The Bank's Accounting Policies provide scope for assets and liabilities to be classified, at inception into different accounting categories. The classification of financial instruments is given in Note 38, 'Analysis of Financial Instruments by Measurement Basis'.

2.6.3 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include and model inputs such as volatility for discount rates. The valuation of financial instruments is described in more detail in Note 39.

2.6.4 Impairment Losses on Loans and Receivables

The Bank reviews its individually significant Loans and Receivables at each Statement of Financial Position date to assess whether an impairment loss should be recorded in Profit or Loss in the Statement of Comprehensive Income. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and Receivables that have been assessed individually and found not to be impaired and all individually insignificant Loans and Receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgements on the effect of concentrations of risks and economic data.

The impairment losses on Loans and Receivables are disclosed in more detail in Note 9, 21 and Note 22.

2.6.5 Impairment of Financial Investments- Available for Sale

The Bank also records impairment charges on Available for Sale Equity Investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

The impairment losses on Financial Investments - Available for Sale are disclosed in Note 9.

2.6.6 Fair Value of Property, Plant and Equipment

The Freehold Land and Buildings of the Bank are reflected at fair value. The Management determined that these constitute a class of asset under SLFRS 13, based on the nature, characteristics and risks of the property. The Bank engages independent valuers to determine fair value of Land and Building. When current market prices of similar assets are available, such evidence is considered in estimating fair values of these assets using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

2.6.7 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 Property, Plant and Equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.6.8 Defined Benefit Plan Obligation

The cost of the Defined Benefit Plan Obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and staff turnover 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 33.

2.6.9 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.6.10 Provisions, Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

2.7 Changes in Accounting Policies and Reclassification

2.7.1 Changes in Accounting Policies

The accounting policies adopted by the Bank are consistent with those of the previous financial year.

2.7.2 Reclassifications

The presentation and classification of the Financial Statements of the previous years have been amended, where relevant, for better presentation and to be comparable with those of the current year. The details of the reclassifications are given in Note 50 to the Financial Statements.

2.8 Summary of Significant Accounting Policies

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

2.8.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lankan Rupees (Rs.) which is also the functional currency.

Notes to the Financial Statements

Transactions and Balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other Operating Income' in the Statement of Comprehensive Income (Profit or Loss).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

Forward foreign exchange contracts and currency swaps are valued at the forward market rate ruling on the date of the Statement of Financial Position. Unrealised gains and losses are dealt under 'Net Gain from Trading' in the Statement of Comprehensive Income (Profit or Loss).

2.8.2 Financial instruments - Initial Recognition and Subsequent Measurement

(i) Date of Recognition

All financial assets and liabilities 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.

(ii) Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. Transaction cost in relation to financial assets and financial liabilities at fair value through profit and loss are dealt with through Statement of Comprehensive Income (Profit or loss).

(iii) 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net Gain from Trading'.

(iv) Classification and Subsequent Measurement of Financial Assets

At the inception a financial asset is classified into one of the following:

a) Financial Assets at Fair Value through Profit or Loss
   i.) Financial Assets Held for Trading
   ii.) Financial Assets Designated at Fair Value through Profit or Loss
b) Held to Maturity Financial Assets
c) Loans and Receivables
d) Financial Assets Available-for-Sale

The subsequent measurement of financial assets depends on their classification.

(v) Derivatives Recorded at Fair Value through Profit or Loss

The Bank uses derivatives such as forward foreign exchange contracts and currency 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. Changes in the fair value of derivatives are included in 'Net Gain from Trading' in Statement of Comprehensive Income (Profit or loss).

(vi) Financial Assets at Fair Value through Profit or Loss

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

(a) Financial Assets Held for Trading

Financial Assets Held for Trading are recorded in the Statement of Financial Position at fair value. Changes in fair value, results of buying and selling and dividend income are recognised in 'Net Gain from Trading' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities, equities and unit trusts that have been acquired principally for the purpose of selling or repurchasing in the near term.

(b) Financial Assets Designated at Fair Value through Profit or Loss

The Bank designates financial assets at fair value through profit or loss in the following circumstances:

- Such designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring the assets
- The assets are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The asset contains one or more embedded derivatives that significantly modify the cash flows that would otherwise have been required under the contract.

Financial assets at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial instruments designated at fair value through profit or loss' in the Statement of Comprehensive Income (Profit or Loss). Interest earned is accrued in 'Interest Income', using the effective interest rate (EIR) method, while dividend income is recorded in 'Other Operating Income' when the right to receive the payment has been established.

The Bank has not designated any financial assets upon initial recognition as designated at fair value through profit or loss.

(vii) Financial Investments - Available for Sale

Available for Sale investments include unquoted equity. Equity investments classified as 'Available for Sale' are those which are neither classified as held for trading nor designated at fair value through profit or loss. The Bank has not designated any loans or receivables as 'Available for Sale'. After initial measurement, Financial Investments - Available for Sale are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (Other comprehensive income). When the investment is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income (Profit or loss) in 'Net Gain from Financial Investments'. Where the Bank holds more than one investment in the same security, they are deemed to be disposed off on a first-in first-out basis. Dividends earned whilst holding Available for Sale Financial Investments' are recognised in the Statement of Comprehensive Income (Profit or loss) as 'Net Gain from Financial Investments' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in 'Impairment for Loans and Other Losses' in the Statement of Comprehensive Income (Profit or loss) and removed from Equity.

(viii) Financial Investments- Held to Maturity

Financial Investments - Held to Maturity are non derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the Effective Interest Rate. The amortisation is included in 'Interest income' in the Statement of Comprehensive Income (Profit or loss). The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income (Profit or loss) in 'Impairment for Loans and Other Losses' and are detailed under Note 9.

If the Bank were to sell or reclassify more than an insignificant amount of Financial Investments - Held to Maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as 'Available for Sale'. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

(ix) Placement with Banks and Loans and Receivables to Banks and Other Customers

'Placement with Banks, Loans and Receivables to Banks and Loans and Receivables to Other Customers' include non derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at 'Fair Value through Profit or Loss'
- Those that the Bank, upon initial recognition, designates as 'Available for Sale'
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'Placements with Banks', 'Loans and Receivables to Banks' and 'Loans and Receivable to Other Customers' are subsequently measured at amortised cost using the Effective Interest Rate less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the Effective Interest Rate. The amortisation is included in 'Interest income' in the Statement of Comprehensive Income (Profit or loss). The losses arising from impairment are recognised in the Statement of Comprehensive Income (Profit or loss) in 'Impairment for Loans and Other Losses' and detailed under Note 9.

(x) Debentures and Unsecured Term Debt

These represent the funds borrowed by the Bank for long term funding requirements. Unsecured Term Debt and Debentures are recognised, where the substance of the contractual arrangement results in the Bank having an obligation to deliver cash. After initial measurement, Debentures and Term Debt are subsequently measured at amortised cost using the Effective Interest Rate. Amortised cost is calculated by taking into account any

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discount or premium on the issue and costs that are an integral part of the Effective Interest Rate.

2.8.3 De-recognition of Financial Assets and Financial Liabilities

(i) Financial Assets

A financial asset is de-recognised when:

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and 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

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that 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 that the Bank could be required to repay.

(ii) Financial Liabilities

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

2.8.4 Repurchase and Reverse Repurchase Agreements

Securities Sold under agreements to repurchase at a specified future date are not de-recognised from the Statement of Financial Position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as a liability with a corresponding obligation to return it, including accrued interest 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 prices is treated as interest expense and is accrued over the life of agreement using the Effective Interest Rate.

Conversely, Securities Purchased under Agreements 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, within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net Interest Income' and is accrued over the life of the agreement using the Effective Interest Rate.

2.8.5 Impairment of Financial Assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter Bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments; and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows(excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income (Profit or loss). Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after then impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write off is later recovered, the recovery is credited to the 'Other Operating Income'.

The present value of the estimated future cash flows is discounted at the financial asset's original Effective Interest Rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current Effective Interest Rate. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new Effective Interest Rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographic allocation, collateral type, past due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of impairment losses on financial assets carried at amortised cost are given in Note 9 and, an analysis of the impairment allowance on Loans and Receivables are given in Note 22.

(ii) Financial Investments - Available for Sale

For Financial Investments - Available for Sale, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Bank treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Other Comprehensive Income is removed from equity and recognised in the Profit or loss in Statement of Comprehensive Income. Impairment losses on equity investments are not reversed through the Profit or Loss in Statement of Comprehensive Income. Increases in the fair value after impairment are recognised in Other Comprehensive Income.

(iii) Re-negotiated Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been re-negotiated, any impairment is measured using the original Effective Interest Rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews re-negotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continued to be subject to an individual or collective impairment assessment calculated using the loan's original Effective Interest Rate.

(iv) Write off of Financial Assets Carried at Amortised Cost

Financial assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are

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secured, this is generally after receipt of any proceeds from the realisation of security.

(v) Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, property, letters of credit, guarantees, receivables, inventories and other movable and non movable assets. The fair value of collateral is generally assessed, at a minimum, at inception and thereafter value changes are monitored in accordance with policies and procedures of the Bank. However, some collateral, for example, cash or securities relating to 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.

2.8.6 Re-classification of Financial Instruments

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurements categories are not permitted following initial recognition.

A non derivative financial asset Held for Trading that would have met the definition of Loans and Receivables (if the financial asset had not been required to be classified as 'Held for Trading' at initial recognition) may be reclassified out of the Fair Value through Profit or Loss category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Financial assets are transferred out of the Available-for Sale category to the Loan and Receivables category where they would have met the definition of a Loan and Receivable at the date of reclassification and the Bank has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held to Maturity assets are reclassified to the Available-for Sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of Held to Maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the Available-for-sale category into Loans and Receivables, any gain or loss on those assets recognised in Shareholders' Equity prior to the date of reclassification is amortised to Profit or Loss over the remaining life of the financial asset, using the effective interest method.

Reclassification is at the discretion of management, and is determined on an instrument by instrument basis.

2.8.7 Fair Value Measurement

The Bank measures financial instruments such as Financial Assets Held for Trading, Financial Derivatives, and non-financial assets such as certain classes of Property, Plant and Equipment at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised under the respective notes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
  or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as properties and significant liabilities, such as defined benefit obligations. The selection criteria include market knowledge, reputation, independence and whether professional standards are maintained etc.

At each reporting date the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management in conjunction with the Bank's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 39.2.

2.8.8 Offsetting Financial Instruments

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

2.8.9 Leases

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.8.9.1 Operating Leases

Bank as a Lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income (Profit or loss) on a straight line basis over the lease term.

Bank as a Lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as 'rental income'.

2.8.9.2 Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as 'Finance Leases'. Amounts receivable under finance leases are included under 'Loans and Receivables to Customers' in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

2.8.10 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.

(i) Interest Income and Expense

For all financial instruments measured at amortised cost and financial instruments at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate. Effective Interest Rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original Effective Interest Rate and the change in carrying amount is recorded as 'Interest income' for financial assets and 'Interest expense' for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the Effective Interest Rate from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be

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recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and Commission Income and Expense

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and Commission Income comprise mainly of fees received from customers for guarantees and other services provided by the Bank together with foreign and domestic tariffs. Such income is recognised as revenue as the services are provided. Fee income can be divided into the following two categories:

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.

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.

(iii) Dividend Income

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

(iv) Net Gain from Trading

Results arising from trading activities include all gains and losses from buying and selling, changes in fair value and dividend income for 'Financial Assets Held for Trading' transactions.

(v) Expenditure Recognition

Expenses are recognised in Profit or Loss in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to Profit or Loss in the Statement of Comprehensive Income. For the purpose of presentation of the Statement of Comprehensive Income, the 'function of expenses' method has been adopted, on the basis that it presents fairly the elements of the Bank's performance.

(vi) Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided and are included under Personnel Expenses in the Statement of Comprehensive Income (Profit or Loss). A liability is recognised for the amounts expected to be paid under short-term bonus if the Bank has a present legal or constructive obligation to pay this amount as a result past service rendered by the employee and the obligation can be measured reliably.

2.8.11 Cash and Cash Equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises local and foreign currency, amounts due from Foreign Banks on demand or with an original maturity of three months or less and Placements with Banks with original maturities of three months or less from the date of placement with insignificant risk of changes in value.

2.8.12 Property, Plant and Equipment

Property, Plant and Equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

2.8.12.1 Basis of Recognition

Property, Plant and Equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Bank and cost of the asset can be reliably measured.

2.8.12.2 Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding cost of day to day servicing) as explained in 2.8.12.5 below. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of Computer Hardware. When parts of an item of property or equipment have different useful lives, they are accounted for as separate Items (major components) of Property, Plant and Equipment.

2.8.12.3 Cost Model

The Bank applies cost model to Property, Plant and Equipment except for Freehold Land and Buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

2.8.12.4 Revaluation Model

The Bank applies the revaluation model to the entire class of Freehold Land and Buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold Land and Buildings of the Bank are revalued every three years on a roll over basis or more frequently if the fair values are substantially different from the carrying amounts to ensure that the carrying amounts do not differ materially from the fair values at the reporting date.

When asset's carrying amount is increased as a result of a revaluation the increase shall be recognised in Other Comprehensive Income and accumulated in equity under the heading of 'Revaluation Reserve'. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in Profit or Loss. However, the decrease shall be recognised in Other Comprehensive Income to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under the heading of 'Revaluation Reserve'.

A transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation reserve relating to the particular asset being sold/disposed off is transferred to retained earnings upon de-recognition.

2.8.12.5 Subsequent Costs

The subsequent cost of replacing a component of an item of Property, Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Bank and its cost can be reliably measured. The costs of day to day servicing of Property, Plant and Equipment are charged to Profit or Loss as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

2.8.12.6 De-recognition

The carrying amount of an item of Property, Plant and Equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of Property, Plant and Equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in profit or loss when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is de-recognised.

2.8.12.7 Depreciation

The Bank provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Bank of the different types of assets, except for which are disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is de-recognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Depreciation is calculated using the straight line method to write down the cost of Property, Plant and Equipment to their residual values over their estimated useful lives. Freehold Land is not depreciated. The estimated useful lives are as follows:

Buildings	-	40 Years
Office Equipment	-	6 Years
Computer Hardware and Equipment	-	6-10 Years
Furniture, Fittings and Fixtures	-	5-10 Years
Motor Vehicles	-	5 Years

The depreciation method and residual values of assets are reviewed at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

2.8.13 Intangible Assets

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

2.8.13.1 Basis of Recognition

An intangible asset is recognised only when it is probable that the expected future economic benefits that are attributable to it will flow to the Bank and its cost can be measured reliably.

2.8.13.2 Measurement

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated

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impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

2.8.13.3 Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

2.8.13.4 Amortisation

Intangible assets are amortised on straight line basis in profit or loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Bank. The estimated useful lives are as follows:

	Original Life Time	Remaining Life Time
Core Banking Software Licences	15 Years	12 Years
Other Software	8 Years	1 - 8 Years

The above rates are also comparable with the rates applied in the previous year.

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

Expenditure on an intangible item that was initially recognised as an expense by the Bank in previous financial years are not recognised as part of the cost of an intangible asset at a later date.

2.8.13.5 Retirement and Disposal

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in Profit or Loss.

2.8.14 Other Assets

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

2.8.15 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, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An assessment is made for assets at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or cash generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Profit or loss in the Statement of Comprehensive Income.

2.8.16 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in Profit or Loss in the Statement of Comprehensive Income net of any reimbursement.

2.8.16.1 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.

2.8.17 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. Operating lease commitments of the Bank and pending legal claims against the Bank too form part of commitments of the Bank. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. But these contingent liabilities do contain credit risk and are therefore form part of the overall risk of the Bank.

Details of commitments and contingencies are given in Note 44.

2.8.17.1 Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements within 'Other Liabilities' at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or loss in the Statement of Comprehensive Income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in Profit or Loss in the Statement of Comprehensive Income under 'Impairment for Loans and Other Losses'. The premium received is recognised in the Profit or Loss in the Statement of Comprehensive Income in 'Net Fee and Commission Income' on a straight line basis over the life of the guarantee.

2.8.17.2 Legal Claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

2.8.18 Employee Retirement Benefits

2.8.18.1 Defined Contribution Plan Costs

Defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to a defined contribution plan are recognised as 'Personnel Expenses' in the Profit or Loss in the Statement of Comprehensive Income in the periods during which services are rendered by employees. Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with the respective Statutes and Regulations. Accordingly, the Bank contributes 12%-15% and 3 % of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and is recognised as an expense under "Personnel Expenses".

2.8.18.2 Defined Benefit Plan Costs

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The liability recognised in the Statement of Financial Position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the 'Projected Unit Credit Method'. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the liability. Provision has been made in the financial statements for retiring gratuities from the first year of service for all employees, in conformity with LKAS 19: "Employee Benefits".

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for payment to an employee arises only after the completion of 5 years continued service. The liability is not externally funded.

2.8.19 Other Liabilities

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

2.8.20 Taxes

2.8.20.1 Current Tax

The provision for income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 as amended subsequently.

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

2.8.20.2 Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that

Notes to the Financial Statements

it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Comprehensive Income (Profit or Loss).

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.8.20.3 Economic Service Charge

As per provisions of the Economic Service Charge (ESC) Act No.13 of 2006 and amendments thereafter, ESC is payable at 0.25% - 0.5% on Bank's liable turnover and is deductible from income tax payable.

2.8.20.4 Value Added Tax on Financial Services

Value Added Tax on Financial Services is calculated at the rate of 15% in accordance with the provisions of the Value Added Tax Act No.14 of 2002 and amendments thereto.

2.8.20.5 Nation Building Tax on Financial Services

Nation Building Tax on Financial Services is calculated at the rate of 2% in accordance with the provisions of the Nation Building Tax Act No.09 of 2009 and amendments thereto.

2.8.20.6 Crop Insurance Levy

Crop Insurance Levy is calculated at the rate of 1% of the profit after tax in accordance with Finance Act No. 12 of 2013.

2.8.21 Statutory Reserve Fund

"Statutory Reserve Fund" represents the statutory requirement in terms of Section 20 (1) and (2) of the Banking Act No 30 of 1988.

2.8.22 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.8.23 Materiality and Aggregation

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

2.8.24 Related Party Transactions

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is being charged.

2.8.25 Events after the Reporting Period

All the material events after end of the reporting period have been considered and appropriate adjustments/disclosures have been made in Note 47 to the Financial Statements.

2.9 Segment Reporting

The Bank's segmental reporting is based on the following operating segments: Corporate Banking, Retail & SME Banking and Treasury & Investment functions.

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 customers.

Treasury and investment function includes trading function, financing and other central functions, use of derivative for risk management purpose, investment products and services to institutional investors and intermediaries.

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 net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Revenue from transactions with no single external customer or a counterparty amounted to 10% or more of the Bank's total revenue during the year.

2.10 Regulatory Provisions

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 there to all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No. 01 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. The said scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No. 01 of 2013.

Deposits to be insured include demand, time and savings deposit liabilities and exclude the following;

a) deposit liabilities to member institutions

b) deposit liabilities to Government of Sri Lanka

c) deposit liabilities to Directors, key management personnel and other related parties as defined in Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks

d) deposit liabilities held as collateral against any accommodation granted

e) deposit liabilities falling within the meaning of 'abandoned property' in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% 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 ISSUED BUT NOT YET EFFECTIVE

The following new accounting standards and amendments/improvements to existing standards which have been issued by the Institute of Chartered Accountants of Sri Lanka (CASL) are not effective as at 31st December 2017. None of these have been early adopted by the Bank.

3.1 SLFRS 9 - Financial Instruments

SLFRS 9 Financial Instruments will replace LKAS 39 for annual periods on or after 1st January 2018 with early adoption permitted. In 2016, the Bank set up a multidisciplinary implementation team ('the Team') with members from its Risk and Finance departments to prepare for SLFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Risk Officer and the Chief Financial Officer.

The initial assessment and analysis stage was completed for impairment in 2017, and the team is finalising the classification and measurement phase.

The Bank performed the Diagnostic Phase (Preliminary Impact Assessment exercise) and Implementation Phase (solution development) on SLFRS 9 Financial Instruments. The Bank has undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.

(i) Classification & Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

(a) Business Model Assessment

The Bank determines it's business model at the level that best reflects how it manages the financial assets to achieve it's objectives. 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 asset held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affects the performance of the business model (and the financial asset 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 flow collected)
- The expected frequency, value and timing of sales are also important aspect of bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'Worst case' or 'Stress Case' scenarios in to account. If cash flows after initial recognition are realised in away that is different from the Bank's original expectation, 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.

(b) Contractual Cash flow Characteristic Test

As the second test of the classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet Solely the Payment of Principal & Interest (SPPI).

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principle or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Bank applies judgement and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than deminimis exposure to risk 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 the payment of principal and interest on the amount outstanding. In such cases the financial asset is required to be measured at FVPL

(ii) Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 will principally change the Bank's loan loss provision method by replacing LKAS 39 Financial Instrument Recognition & Measurement's 'Incurred Loss' approach with a forward looking ECL Approach.

ECL allowance will be based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12 month expected credit loss (12mECL).

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date.

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. Based on such process bank groups loans in to stage 1, stage 2, stage 3 as described below:

- Stage 1 : When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include the facilities where the credit risk has improved and the loans has been re-classified from Stage 2. Assessment of Stage 1 will be performed collectively.

- Stage 2 : When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facility, where the credit risk has improved and the loan has been reclassified from stage 2. Assessment of stage 2 will be performed collectively

- Stage 3 :Loan considered to be credit Impaired/contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed Individual/Collectively

Significant Increase in Credit Risk

The Bank continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assess 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 when the either of the following criteria are met:

- Facilities exceeding 30 days past due
- Counterparties/facilities reflected coded any elevated risk industries as per the assessment performed by the Credit Risk Management Team
- Re-structured facilities
- Secondary qualitative indicators triggering a significant increase in credit risk for an asset, such as moving a customer/facility to watch list

Individually Significant Assessment and Not Impaired Individually

Individual assessment will be performed for all the customers with Objective evidence of incurred losses (under Stage 3). Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there have been significant credit deterioration since origination.

While establishing significant credit deterioration bank will consider the following criteria:

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally
- Existing or forecast adverse changes in business, financial or economic condition that are expected to cause s significant change in the borrower's ability to meet it's obligation
- An Actual or expected significant change in the operating results of the borrower in relating to actual/expected decline in revenue, Increase in operating risk, working capital deficiency, decrease in asset quality, Increase in gearing, liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis

As explained above, bank calculates ECL either on a collective or individual basis. Asset classes where bank calculates ECL on an Individual basis includes All Individually significant Assets which are belong to stage 3. All assets which belong stage 1 & 2 will be assessed collectively for Impairment.

The Bank groups these exposures for smaller homogeneous exposures, based on a combination of internal and external characteristics of the loan as described below:

- Product Type
- Type of Collateral
- Days Past Due
- Industry

The Calculation of ECL

The Bank calculates ECL based on 3 probability weighted scenarios to measure 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.

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio

- EAD: Exposure At Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract to otherwise, expected draw downs on committed facilities.

- LGD: Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realisation of any collateral. It is usually expressed as a % of the EAD.

When estimating the ECL, Bank considers 3 scenarios (Base Case, Best Case & Worst Case). Each of these scenarios associated with different loss rates. For all products banks considers the maximum period of which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

In it's ECL model the Bank relies on broad range qualitative/quantitative forward looking information as economic input such as :

- GDP Growth
- Government Policies
- Inflation
- Status of the Industry Business
- Unemployment
- Regulatory Impact
- Interest Rates
- Exchange Rates

3.2 SLFRS 15 - Revenue from Contracts with Customers

SLFRS 15 is effective for periods beginning on 1st January 2018 with early adoption permitted. SLFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of SLFRS 15 and will be regulated by the other applicable standards such as SLFRS 9 - Financial Instruments and SLFRS 16 - Leases.

Revenue under SLFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The entity does not anticipate early adoption of SLFRS 15.

A preliminary evaluation of the existing contracts which falls mainly under fee and commission based income of the Bank has been performed in relation to the adoption of SLFRS 15. The Bank's current assessment and quantification as a result of the contract evaluation has not revealed a significant change to the revenue recognition pattern.

3.3 SLFRS 16 - Leases

SLFRS 16 replaces LKAS 17-Leases, IFRIC 4-Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under SLFRS 16 is substantially unchanged from today's accounting under LKAS17. Lessors will continue to classify all leases using the same classification principle as in LKAS17 and distinguish between two types of leases : operating and finance leases.

SLFRS 16 also requires lessees and lessors to make more extensive disclosures than under LKAS 17. SLFRS 16 is effective for annual periods beginning on or after 1st January 2019.

In 2018, the Bank will continue to assess the potential effect of SLFRS 16 in its financial statements.

Notes to the Financial Statements

4 NET INTEREST INCOME

	2017 Rs.	2016 Rs.
Interest Income		
Placements with Banks	15,368,705	5,453,666
Loans and Receivables to Banks	82,769,341	91,502,538
Loans and Receivables to Other Customers	13,790,975,921	11,384,964,033
Financial Investments - Held to Maturity	1,506,855,444	1,498,173,571
Financial Assets - Held for Trading	45,110,448	218,398,684
Interest Income Accrued on Impaired Loans and Receivables	174,933,734	168,050,443
	15,616,013,593	13,366,542,935
Interest Expense		
Due to Banks	361,932,074	1,198,536,095
Due to Other Customers	9,099,011,665	6,500,418,208
Other Borrowings	709,221,598	238,200,019
Debentures	739,574,780	796,010,093
	10,909,740,117	8,733,164,415
Net Interest Income	4,706,273,476	4,633,378,520

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

	2017 Rs.	2016 Rs.
Interest Income	2,097,315,661	2,156,945,790

Interest Income from Sri Lanka Government Securities and related Financial Instruments includes Interest Income from Treasury Bills, Treasury Bonds, Sri Lanka Development Bonds, Securities Purchased under Re-Sale Agreements and other related instruments.

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

	2017 Rs.	2016 Rs.
Interest Income	15,570,903,145	13,148,144,251
Interest Expense	(10,909,740,117)	(8,733,164,415)
Net Interest Income	4,661,163,028	4,414,979,836

5 NET FEE AND COMMISSION INCOME

	2017 Rs.	2016 Rs.
Net Fee and Commission Income		
Fee and Commission Income	1,408,275,735	1,175,173,525
Fee and Commission Expense	(96,332,332)	(69,452,631)
	1,311,943,403	1,105,720,894
Comprising		
Loans	522,551,753	457,928,843
Cards	335,573,567	189,334,984
Trade and Remittance	280,639,088	254,851,815
Deposits	133,522,439	152,901,274
Guarantees	39,656,556	50,703,978
	1,311,943,403	1,105,720,894

6 NET GAIN FROM TRADING

	2017 Rs.	2016 Rs.
Equities and Unit Trusts		
Realised	216,919,810	107,577,064
Unrealised	(615,631)	(1,983,702)
Debt Securities		
Realised	12,564,216	83,656,097
Unrealised	8,641,695	(2,110,380)
Foreign Exchange - Net Forward Forex Gain	153,887,723	87,956,308
	391,397,813	275,095,387

Equities and Unit Trust Income includes the results of buying and selling, dividend income and changes in the fair value of equity securities and units. Debt securities income includes the results of buying and selling and changes in the fair value of debt securities. Foreign Exchange - Net Forward Forex Gain includes foreign exchange differences arising from derivative contracts which are not designated as hedging instruments.

7 NET GAIN FROM FINANCIAL INVESTMENTS

	2017 Rs.	2016 Rs.
Financial Investments - Available for Sale (Equities)	823,500	382,500
	823,500	382,500

Net gain from financial investments includes dividend income from Financial Investments - Available for Sale.

Notes to the Financial Statements

8 OTHER OPERATING INCOME

	2017 Rs.	2016 Rs.
Gains on Revaluation of Non Trading Foreign Exchange	262,950,163	320,048,103
Gains on Sale of Property Plant and Equipment	-	4,237,316
Other Income	5,210,737	3,262,480
	268,160,900	327,547,899

8.1 The Bank does not perform interbank foreign currency transactions for trading purposes in the normal course of business. Therefore, no gain or loss generated from such transactions during the year. However, the Bank carry out forward transaction deals pertaining to customer requirements in the normal course of business.

9 IMPAIRMENT FOR LOANS AND OTHER LOSSES

	2017 Rs.	2016 Rs.
Loans and Receivables to Other Customers (Note 22.4)		
Individual Impairment Losses	337,264,627	482,268,162
Collective Impairment Losses	160,172,614	47,008,354
	497,437,241	529,276,516
Other Impairment Reversals	(3,051,291)	(1,168,086)
	494,385,950	528,108,430

There are no impairment losses recognised in the Statement of Comprehensive Income (Profit or loss) with regard to Placements with Banks, Loans and Receivables to Banks, Financial Investments - Held to Maturity and Financial Investments - Available for Sale.

10 PERSONNEL EXPENSES

	2017 Rs.	2016 Rs.
Salaries, Wages and Other Related Expenses	1,352,356,095	1,369,306,246
Defined Contribution Plan Expenses - Employees Provident Fund	139,988,871	131,262,340
- Employees Trust Fund	32,960,661	30,797,812
Defined Benefit Plan Expenses (Note 33.1)	59,590,098	46,835,168
Amortisation of Prepaid Staff Expenses	39,138,890	35,402,614
	1,624,034,615	1,613,604,180

11 OTHER OPERATING EXPENSES

	2017 Rs.	2016 Rs.
Directors' Emoluments (Note 11.1)	57,440,563	48,594,141
Auditors' Remuneration	3,946,380	4,123,000
Non Audit Fees to Auditors	1,226,282	931,202
Professional and Legal Expenses	33,941,775	28,048,581
Depreciation on Property, Plant and Equipment	180,426,625	192,570,289
Amortisation of Intangible Assets	33,064,752	32,712,249
Operating Lease Expenses	246,562,246	221,176,590
Administration and Establishment Expenses	505,119,371	484,550,121
Business Development Expenses	233,755,226	259,745,744
Other Expenses	812,761,758	649,759,158
	2,108,244,978	1,922,211,075

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

11.1 Directors Emoluments represent Salaries, Bonuses and other related expenses of Chief Executive Officer/ Director and fees paid to Non Executive Directors including Chairman.

12 VALUE ADDED TAX AND NATION BUILDING TAX ON FINANCIAL SERVICES

	2017 Rs.	2016 Rs.
Value Added Tax on Financial Services	508,770,770	415,646,939
Nation Building Tax on Financial Services	67,706,772	67,618,505
	576,477,542	483,265,444

13 INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31st December 2017 and 31st December 2016 are:

	2017 Rs.	2016 Rs.
Current Income Tax		
Current Income Tax Charge (Note 13.1)	486,202,576	505,002,404
Over Provisions in respect of Previous Years	(22,628,893)	(17,866,668)
Deferred Tax		
Relating to Origination and Reversal of Temporary Differences (Note 13.2)	21,380,430	56,095,513
Income Tax Expense Reported in the Statement of Comprehensive Income (Profit or Loss)	484,954,113	543,231,249

FINANCIAL AND INVESTOR INFORMATION

Notes to the Financial Statements

Income tax provisions for the year ended 31st December 2017 have been made as per the provisions of the Inland Revenue Act No. 10 of 2006 (as amended subsequently), which is applicable for Year of Assessment 2017/18. However, the Bank has recognised a deferred tax liability on Bank's freehold land considering possible tax liability that could arise at the time of sale as per the provisions of the Inland Revenue Act No. 24 of 2017, which will be effective from 1st April 2018 onwards.

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

13.1 Reconciliation of the Total Tax Expense

A reconciliation between the tax expense and the accounting profit multiplied by the Statutory Income tax rate for the year ended 31st December 2017 and 31st December 2016 is as follows:

	2017 Rs.	2016 Rs.
Accounting Profit Before Tax	1,875,456,007	1,794,936,071
At Statutory Income Tax Rate of 28%	525,127,682	502,582,100
Non Deductible Expenses	1,281,381,420	1,117,762,885
Deductible Expenses	(1,208,196,805)	(1,030,166,440)
Income not Subject to Tax	(81,844,007)	(64,907,954)
Tax Effect of Business of Finance Leasing -Tax Losses	(30,265,714)	(20,268,187)
Current Income Tax Charge	486,202,576	505,002,404
Over Provisions in respect of Previous Years	(22,628,893)	(17,866,668)
Recognition of deferred tax on temporary differences	21,380,430	56,095,513
Total Income Tax Expense	484,954,113	543,231,249
Effective Tax Rate (Before Deferred tax and Adjustment for Current Income Tax of Prior Years)	25.92%	28.13%
Effective Tax Rate (After Deferred tax and Adjustment for Current Income Tax of Prior Years)	25.86%	30.26%

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

13.2 Deferred Tax

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

	2017			2016		
	Deferred Tax Liabilities (Statement of Financial Position)	Statement of Comprehensive Income		Deferred Tax Liabilities (Statement of Financial Position)	Statement of Comprehensive Income	
		Profit or Loss	Other Comprehensive Income		Profit or Loss	Other Comprehensive Income
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Lease Rentals Receivables	549,042,815	115,575,307	-	433,467,508	88,739,472	-
Property, Plant and Equipment	350,925,123	(775,102)	175,463,878	176,236,347	(2,076,413)	-
Intangible Assets	54,075,332	14,754,914	-	39,320,418	15,152,499	-
Defined Benefit Plan Obligation	(76,299,269)	(8,123,130)	(11,879,204)	(56,296,935)	(9,838,419)	(2,065,755)
Impairment of Assets	(222,754,961)	(161,874,327)	-	(60,880,634)	(45,596,986)	-
Tax Losses	(24,254,756)	61,822,768	-	(86,077,524)	9,715,360	-
Total	630,734,284	21,380,430	163,584,674	445,769,180	56,095,513	(2,065,755)

14 EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted Earnings Per Share is calculated by dividing the profit attributable to ordinary equity holders of Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As there were no potential ordinary equity outstanding at 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;

	2017	2016
Profit Attributable to Ordinary Shareholders (Rs.)	1,390,501,894	1,251,704,822
Weighted Average Number of Ordinary Shares in Issue (Note 14.1)	420,358,086	311,847,224
Basic/Diluted Earnings Per Share (Rs.)	3.31	4.01

14.1 Amount used as denominator

	2017	2016
Ordinary shares at the beginning of the year	295,041,086	295,041,086
Weighted average number of shares issued under rights issue	108,510,862	-
Bonus element on number of shares issued under rights issue	16,806,138	16,806,138
Weighted average number of ordinary shares	420,358,086	311,847,224

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

15 DIVIDENDS PER SHARE

	2017 Rs.	2016 Rs.
Gross Dividends Paid/Payable to Ordinary Shareholders (Rs.)	-	-
Dividends Per Share (Rs.)	-	-

The Bank has not declared any dividend during the year.

16 CASH AND CASH EQUIVALENTS

	2017 Rs.	2016 Rs.
Cash in Hand (Note 42.1)	1,404,367,099	1,205,764,875
Balances with Foreign Banks (Note 42.1)	260,673,566	497,684,739
	1,665,040,665	1,703,449,614

Notes to the Financial Statements

17 BALANCES WITH CENTRAL BANK OF SRI LANKA

	2017 Rs.	2016 Rs.
Statutory Deposit with the Central Bank of Sri Lanka	6,884,017,912	6,218,564,125
	6,884,017,912	6,218,564,125

As required by the Provisions of Section 93 of Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka according to statutory requirements. Minimum cash reserve requirement as at the Statement of Financial Position Date is 7.5% of the Rupee deposit liabilities of the Domestic Banking Unit. Statutory Deposit with the Central Bank of Sri Lanka is not available for use in the Bank's day-to-day operations.

18 PLACEMENTS WITH BANKS

	2017 Rs.	2016 Rs.
Placements with Banks within Sri Lanka (Note 42.1)	237,368,087	75,096,992
	237,368,087	75,096,992

19 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the period end and are indicative of neither the market risk nor the credit risk.

	2017			2016		
	Assets Rs.	Liabilities Rs.	Notional Amount Rs.	Assets Rs.	Liabilities Rs.	Notional Amount Rs.
Forward Foreign Exchange Contracts and Currency Swaps	16,091,393	7,366,561	13,735,368,558	26,279,628	-	13,569,754,266
	16,091,393	7,366,561	13,735,368,558	26,279,628	-	13,569,754,266

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank. The Bank's exposure under derivative contracts are closely monitored as part of the overall management of the Bank's market risk.

Forward Foreign Exchange Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over the counter market and are subject to credit risk and liquidity risk and result in market exposure. The Bank has credit exposure to the counterparties of forward contracts which are settled on gross basis therefore, considered to bear a higher liquidity risk than the futures contracts that are settled on a net basis.

Currency Swaps

Currency Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying foreign currency rate. In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Fair Values

Disclosures concerning the fair value of derivatives are provided in Note 38.

20 FINANCIAL ASSETS - HELD FOR TRADING

	2017 Rs.	2016 Rs.
Quoted Equities (Note 20.1)	12,107,420	12,723,051
Sri Lanka Government Securities - Treasury Bills and Bonds	4,537,081,609	617,021,656
	4,549,189,029	629,744,707

20.1 Quoted Equities

	2017			2016		
	No. of Shares	Cost Rs.	Fair Value Rs.	No. of Shares	Cost Rs.	Fair Value Rs.
Vallibel One PLC	684,035	17,100,875	12,107,420	684,035	17,100,875	12,723,051
		17,100,875	12,107,420		17,100,875	12,723,051
Carrying Value			12,107,420			12,723,051

21 LOANS AND RECEIVABLES TO BANKS

	2017 Rs.	2016 Rs.
Gross Loans and Receivables to Banks (Note 21.1)	653,087,844	754,131,408
Less : Individual Impairment	-	-
Collective Impairment	-	-
	653,087,844	754,131,408

FINANCIAL AND INVESTOR INFORMATION

Notes to the Financial Statements

21.1 Product Wise Analysis

	2017 Rs.	2016 Rs.
Loans and Advances		
Term Loans	248,283,332	349,157,377
	248,283,332	349,157,377
Other Receivables		
Debentures - Quoted	404,804,512	404,974,031
	404,804,512	404,974,031
	653,087,844	754,131,408

22 LOANS AND RECEIVABLES TO OTHER CUSTOMERS

	2017 Rs.	2016 Rs.
Gross Loans and Receivables (Note 22.1 & Note 22.2)	111,351,500,047	98,509,785,920
Less: Individual Impairment (Note 22.4)	(1,068,900,861)	(1,693,536,076)
Collective Impairment (Note 22.4)	(1,142,663,136)	(982,490,522)
	109,139,936,050	95,833,759,322

22.1 Product wise Analysis

	2017 Rs.	2016 Rs.
Loans and Advances		
Overdrafts	17,703,444,369	18,446,879,670
Trade Finance	4,546,527,810	3,462,954,581
Credit Cards	4,742,699,375	2,885,196,723
Pawning & Ran Loans	2,437,587,683	2,646,972,447
Staff Loans	821,812,942	809,691,534
Term Loans		
Short - term	8,255,168,305	7,309,019,738
Long - term	50,632,699,952	41,164,605,032
Lease Rentals Receivable (Note 45.2)	9,449,637,185	8,792,505,727
Margin Trading Advances	1,467,071,382	2,447,731,689
Others	650,447,340	859,461,979
	100,707,096,343	88,825,019,120
Other Receivables		
Sri Lanka Government Securities - Sri Lanka Development Bonds	8,865,418,440	6,207,879,448
Securities Purchased Under Resale Agreements - Other Customers	186,289,553	1,683,561,100
Debentures - Quoted	1,592,695,711	1,793,326,252
	10,644,403,704	9,684,766,800
	111,351,500,047	98,509,785,920

22.2 Currency wise Analysis

	2017 Rs.	2016 Rs.
Sri Lankan Rupee	95,016,185,333	87,761,271,198
United States Dollar	12,290,379,342	8,935,856,642
Japanese Yen	3,179,316,645	1,705,198,512
Euro	801,788,907	86,043,808
Great Britain Pound	63,829,820	14,661,641
Others	-	6,754,119
	111,351,500,047	98,509,785,920

Industry-wise analysis of the Loans and Receivables to customers are given in Note 40.2.

22.3 Individually Impaired Loans and Receivables

	2017 Rs.	2016 Rs.
Gross amount of Loans and Receivables individually determined to be impaired, before deducting the Individual Impairment Losses	2,079,687,957	2,805,083,205
Less: Individual Impairment Losses (Note 22.4)	(1,068,900,861)	(1,693,536,076)
Net Exposure	1,010,787,096	1,111,547,129
Impairment Cover Ratio (Individual Impairment Losses to Gross Individually Impaired Loans & Receivables)	51.40%	60.37%
Impaired Loans and Receivable Ratio (Individually Impaired Loans and Receivables to Gross Loans and Receivables)	1.87%	2.85%

22.4 Movements in Individual and Collective Impairment during the Year

	Individual Impairment Rs.	Collective Impairment Rs.	Total Impairment Rs.
As at 1st January 2016	1,201,653,305	935,482,168	2,137,135,473
Charge to Profit or Loss (Note 09)	482,268,162	47,008,354	529,276,516
(Write offs)/Recoveries during the Year	(18,274,026)	-	(18,274,026)
Interest Accrued on Impaired Loans and Receivables	(168,050,443)	-	(168,050,443)
Other Movements	195,939,078	-	195,939,078
As at 31st December 2016	1,693,536,076	982,490,522	2,676,026,598
As at 1st January 2017	1,693,536,076	982,490,522	2,676,026,598
Charge to Profit or Loss (Note 09)	337,264,627	160,172,614	497,437,241
(Write offs)/Recoveries during the Year	(786,966,108)	-	(786,966,108)
Interest Accrued on Impaired Loans and Receivables	(174,933,734)	-	(174,933,734)
As at 31st December 2017	1,068,900,861	1,142,663,136	2,211,563,997

Notes to the Financial Statements

23 FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

	2017 Rs.	2016 Rs.
Equities - Unquoted (Note 23.1)	6,157,847	6,157,847
	6,157,847	6,157,847

All unquoted Available for Sale Equities are recorded at cost since its fair value can not be reliably estimated. There is no market for these investments and the Bank intends to hold these for long term.

23.1 Equities - Unquoted

	2017		2016	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
Credit Information Bureau of Sri Lanka	300	30,000	300	30,000
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	8	4,127,847	8	4,127,847
Lanka Clear (Private) Limited	100,000	1,000,000	100,000	1,000,000
Lanka Financial Services Bureau Limited	100,000	1,000,000	100,000	1,000,000
		6,157,847		6,157,847

24 FINANCIAL INVESTMENTS - HELD TO MATURITY

	2017 Rs.	2016 Rs.
Sri Lanka Government Securities - Treasury Bills and Bonds	12,287,192,426	21,753,428,446
	12,287,192,426	21,753,428,446

24.1 Financial Assets Held to Maturity Pledged as Collateral

Sri Lanka Government Securities - Treasury Bills and Bonds amounting to Rs.3,722,571,200 /- (31st December 2016 - Rs. 13,460,338,177 /-) are pledged as collateral against the Borrowings under Repurchase Agreements as at the date of the Statement of Financial Position.

25 PROPERTY, PLANT AND EQUIPMENT

25.1 Cost / Fair Value

	Freehold Land Rs.	Freehold Buildings Rs.	Office Equipments Rs.	Computer Hardware & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
As at 1st January 2017	492,346,500	466,053,500	377,993,841	541,182,059	584,567,832	20,297,620	2,482,441,352
Additions	-	-	29,005,107	32,369,432	72,963,638	-	134,338,177
Revaluation Effect	522,563,500	(17,912,500)	-	-	-	-	504,651,000
Disposals	-	-	(3,787,177)	(2,011,035)	(5,153,153)	-	(10,951,365)
As at 31st December 2017	1,014,910,000	448,141,000	403,211,771	571,540,456	652,378,317	20,297,620	3,110,479,164

25.2 Depreciation and Impairment

	Freehold Land	Freehold Buildings	Office Equipments	Computer Hardware & Equipments	Furniture & Fittings	Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 1st January 2017	-	32,499,493	274,450,304	328,126,010	356,193,402	1,780,954	993,050,163
Depreciation Charge for the Year	-	14,649,418	41,207,697	57,706,408	62,823,102	4,040,000	180,426,625
Revaluation Effect	-	(43,311,764)	-	-	-	-	(43,311,764)
Disposals	-	-	(3,374,254)	(2,011,035)	(4,271,090)	-	(9,656,379)
As at 31st December 2017	-	3,837,147	312,283,747	383,821,383	414,745,414	5,820,954	1,120,508,645

25.3 Net Book Value

	Freehold Land	Freehold Buildings	Office Equipments	Computer Hardware & Equipments	Furniture & Fittings	Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 31st December 2016	492,346,500	433,554,007	103,543,537	213,056,049	228,374,430	18,516,666	1,489,391,189
As at 31st December 2017	1,014,910,000	444,303,853	90,928,024	187,719,073	237,632,903	14,476,666	1,989,970,519

25.4 There were no capital work in progress outstanding as at the Statement of Financial Position Date. (2016- Nil)

25.5 Freehold Land and Building

The details of the Land and Building owned by the Bank are as follows;

Location / Address	Extent		31st December 2017 Revalued Amount		31st December 2016 Revalued Amount	
	Land (Perches)	Building (Square Feet)	Land Rs.	Building Rs.	Land Rs.	Building Rs.
No 450, Galle Road, Colombo 03	23.66	41,420	437,710,000	434,491,000	213,000,000	455,400,000
No: 08, Sea Avenue, Colombo 03	18.55	-	222,600,000	-	111,300,000	-
No: 10, Sea Avenue, Colombo 03	19.80	-	237,600,000	-	118,800,000	-
No: 12 & 12 1/ 1, Sea Avenue, Colombo 03	9.75	3,900	117,000,000	13,650,000	49,246,500	10,653,500
			1,014,910,000	448,141,000	492,346,500	466,053,500

25.6 All Freehold Land and Buildings owned by the Bank have been revalued in 2017 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 25.8. Revaluation surplus arising out of the revaluation has been transferred to Revaluation Reserve.

Significant Un-Observable valuation Input
Land: Price Per Perch Rs. 12,000,000 - Rs. 18,500,000
Building : Monthly rent per square feet - Rs. 150/-

Significant increase/decrease in estimated price per perch / rent per square feet would result in a significant higher/lower fair value of Land and Building.

Other fair value related disclosures on Revalued Land and Building are provided in Note 39.2.

Notes to the Financial Statements

25.7 The Carrying amount of revalued Land and Building, if they were carried at cost less depreciation, would be as follows;

	2017			2016		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Freehold Land	413,652,558	-	413,652,558	413,652,558	-	413,652,558
Freehold Building	223,252,527	58,109,012	165,143,515	223,252,527	52,527,699	170,724,828
Total	636,905,085	58,109,012	578,796,073	636,905,085	52,527,699	584,377,386

25.8 Details of the Land and Building stated at revalued amounts are given below;

Location/Address	Valuer Name	Date of Valuation	Method of Valuation	Land		Building	
				Cost	Revalued Amount	Cost	Revalued Amount
				Rs.	Rs.	Rs.	Rs.
No 450, Galle Road, Colombo 03	Mr. J. M. S. Bandara	28th June 2017	Investment / Income Method	183,969,895	437,710,000	212,332,737	434,491,000
No: 08, Sea Avenue, Colombo 03	Mr. J. M. S. Bandara	28th June 2017	Market Comparable Method	106,166,453	222,600,000	-	-
No: 10, Sea Avenue, Colombo 03				82,437,000	237,600,000	-	-
No: 12 & 12 1/ 1, Sea Avenue, Colombo 03				41,079,210	117,000,000	10,919,790	13,650,000

25.9 A classwise 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;

	2017	2016
	Rs.	Rs.
Office Equipments	200,776,075	108,013,802
Computer Hardware and Equipments	231,787,180	107,640,156
Furniture & Fittings	197,111,662	101,825,268
Motor Vehicles	97,620	97,620
	629,772,537	317,576,846

25.10 There were no Property, Plant and Equipment identified as temporarily idle as at the date of the Statement of Financial Position (2016- Nil).

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

	2017	2016
	Rs.	Rs.
Computer Hardware and Equipments	76,519,571	58,785,288

25.12 There were no restrictions on the title of Property, Plant and Equipment as at the Statement of Financial Position date (2016 - Nil).

25.13 There were no items of Property, Plant and Equipment pledged as securities against liabilities as at the Statement of Financial Position date (2016 - Nil).

25.14 There were no impairment losses recognised with regard to Property, Plant and Equipment as at the Statement of Financial Position date (2016 - Nil).

26 INTANGIBLE ASSETS

Computer Software

	Total Rs.
Cost	
As at 1st January 2017	502,613,983
Additions	1,750,823
Disposals	-
As at 31st December 2017	504,364,806
Amortisation and Impairment	
As at 1st January 2017	186,909,737
Amortisation Charge for the Year	33,064,752
Disposals	-
As at 31st December 2017	219,974,489
Net Book Value	
As at 1st January 2017	315,704,246
As at 31st December 2017	284,390,317

Nature and Amortisation Method

Intangible Assets include the Cost of Core Banking Software Licences and Other Softwares. There were no Intangible Asset items pledged as a security against liabilities as at the date of the Statement of Financial Position. There were no borrowing costs related to Intangible Assets acquired during the year (2016 - Nil). There were no impairment losses recognised with regard to Intangible Assets as at the Statement of Financial Position date (2016 - Nil).

27 OTHER ASSETS

	2017 Rs.	2016 Rs.
Deposits and Prepayments	325,287,093	264,138,305
Prepaid Staff Cost	290,441,546	276,526,922
Other Receivables (Note 27.1)	173,514,336	104,706,501
	789,242,975	645,371,728

27.1 Other Receivables

	2017 Rs.	2016 Rs.
Gross Receivables	275,456,551	209,838,224
Less : Accumulated impairment Losses	(101,942,215)	(105,131,723)
	173,514,336	104,706,501

Notes to the Financial Statements

28 DUE TO BANKS

	2017 Rs.	2016 Rs.
Call Money Borrowings	-	2,106,699,875
Re-finance Borrowings	111,418,603	29,802,923
Securities Sold under Repurchase Agreements - Banks	-	6,903,208,822
Standing Lending Facility Borrowings	1,726,243,990	3,686,716,301
Call and Term Deposits - Banks	515,919,839	1,382,975,262
Balances with Foreign Banks	144,318,812	128,988,466
	2,497,901,244	14,238,391,649

29 DUE TO OTHER CUSTOMERS

	2017 Rs.	2016 Rs.
Total Amount Due to Customers	107,193,029,640	91,456,409,639
	107,193,029,640	91,456,409,639

29.1 Product wise Analysis

	2017 Rs.	2016 Rs.
Demand Deposits	4,815,484,655	5,141,991,127
Savings Deposits	14,159,616,179	13,452,803,301
Time Deposits	83,200,483,060	67,047,836,768
Certificate of Deposits	4,603,818,819	5,488,401,335
Margin Deposits	413,626,927	325,377,108
	107,193,029,640	91,456,409,639

29.2 Currency wise Analysis

	2017 Rs.	2016 Rs.
Sri Lankan Rupee	98,574,958,723	84,851,489,196
United States Dollar	6,730,046,116	5,191,710,302
Great Britain Pound	511,125,286	344,855,073
Australian Dollar	552,802,708	492,317,416
Euro	157,885,878	183,097,510
Others	666,210,929	392,940,142
	107,193,029,640	91,456,409,639

30 TERM DEBT AND OTHER BORROWED FUNDS

	2017 Rs.	2016 Rs.
Unsecured Term Facility Borrowings	6,733,162,061	5,528,588,987
Securities Sold Under Repurchase Agreements - Other Customers	1,732,624,730	1,234,358,733
	8,465,786,791	6,762,947,720

30.1 Unsecured Loan Facility Borrowings - Movement in Capital

	Senior		Total
	Fixed Rs.	Floating Rs.	Rs.
As at 1st January 2017	1,191,000,000	4,390,132,500	5,581,132,500
Received during the Year	-	1,074,850,000	1,074,850,000
Exchange Rate Difference	-	101,205,000	101,205,000
As at 31st December 2017	1,191,000,000	5,566,187,500	6,757,187,500

30.2 Unsecured Loan Facility Borrowings - Capital Outstanding

Lender	Receipt Date	Maturity Date	Rate of Interest	Amount	
				Original Loan Currency	Rs.
Global Climate Partnership Fund S.A. SICAV-SIF	01st October 2013	30th September 2020	6 Month LIBOR + 4%	USD 10,000,000	1,535,500,000
Global Climate Partnership Fund S.A. SICAV-SIF	03rd September 2015	02nd September 2022	6 Month LIBOR + 4%	USD 10,000,000	1,535,500,000
Micro, Small & Medium Enterprises Bonds S.A.	19th December 2016	18th December 2021	3 Month LIBOR + 4%	USD 9,250,000	1,420,337,500
Micro, Small & Medium Enterprises Bonds S.A.	21st December 2016	19th July 2021	11.50%	Rs. 1,191,000,000	1,191,000,000
Global Climate Partnership Fund S.A. SICAV-SIF	06th October 2017	7th October 2024	6 Month LIBOR + 3.75%	USD 2,000,000	307,100,000
Global Climate Partnership Fund S.A. SICAV-SIF	22nd December 2017	7th October 2024	6 Month LIBOR + 3.75%	USD 5,000,000	767,750,000
					6,757,187,500

31 OTHER PROVISIONS AND ACCRUALS

	2017 Rs.	2016 Rs.
Utility Payables	84,051,330	71,296,518
Other Accruals	145,484,249	99,102,748
	229,535,579	170,399,266

Notes to the Financial Statements

32 OTHER LIABILITIES

	2017 Rs.	2016 Rs.
Cheque Pending Realisation	4,130,124	9,273,927
Claims Payable	335,492,714	497,688,007
Defined Benefit Plan - Retiring Gratuity Obligation (Note 33.2)	272,497,390	201,060,482
Other Creditors	497,930,093	435,790,407
	1,110,050,321	1,143,812,823

33 DEFINED BENEFIT PLAN - RETIRING GRATUITY OBLIGATION

Amounts recognised in Statement of Comprehensive Income in respect of Defined Benefit Plan Costs are as follows;

33.1 Defined Benefit Plan Expense

	2017 Rs.	2016 Rs.
Service Cost		
Current Service Cost	35,462,840	29,395,155
Net Interest Expense	24,127,258	17,440,013
Components recognised in the Profit or Loss (Note 10)	59,590,098	46,835,168
Re-measurement of Net Defined Benefit Obligations		
Actuarial Losses	42,425,727	7,377,697
Components recognised in Other Comprehensive Income	42,425,727	7,377,697

33.2 Defined Benefit Plan - Retiring Gratuity Obligations

Movements in the present value of the Defined Benefit Plan Obligation are as follows:

	2017 Rs.	2016 Rs.
Balance at the Beginning of the Year	201,060,482	158,545,574
Current Service Cost	35,462,840	29,395,155
Interest Cost	24,127,258	17,440,013
Actuarial Losses due to Changes in Assumptions	42,425,727	7,377,697
Benefits Paid during the Year	(30,578,917)	(11,697,957)
Balance at the End of the Year (Note 32)	272,497,390	201,060,482

Actuarial Valuation of Retiring Gratuity Obligation as at 31st December 2017 was carried out by Mr. M. Poopalanathan, AIA of M/S Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries using "Projected Unit Credit Method" as recommended by LKAS 19 "Employee Benefits".

The principal assumptions used in determining the Retiring Benefit Obligation are given below;

	2017	2016
Discount Rate	10 % p.a	12% p.a
Future Salary Increment Rate	9 % p.a	9% p.a

The demographic assumptions underlying the valuation are retirement age (55 years), staff turnover rate (15%-20%) early withdrawal from service, retirement on medical grounds, death before and after retirement, etc. Assumptions regarding future mortality are based on 1967-70 mortality table and issued by the Institute of Actuaries, London.

Defined Benefit Plan Obligation is not externally funded hence no contributions are expected for year 2017. The Defined Benefit Plan Obligation is recorded under 'Other Liabilities' in the Statement of Financial Position. Actuarial Losses on Defined Benefit Plan is recognised in Other Comprehensive Income for the year.

33.3 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible changes in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement as at 31st December 2017. 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 Other Comprehensive Income and Retiring Gratuity obligation for the year.

		2017		2016	
Increase / (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income Rs.	Sensitivity Effect on Defined Benefit Obligation Rs.	Sensitivity Effect on Statement of Comprehensive Income Rs.	Sensitivity Effect on Defined Benefit Obligation Rs.
1%	-	12,524,874	(12,524,874)	8,443,786	(8,443,786)
(1%)	-	(13,766,031)	13,766,031	(9,224,587)	9,224,587
-	1%	(17,714,526)	17,714,526	(10,371,462)	10,371,462
-	(1%)	16,309,212	(16,309,212)	9,633,487	(9,633,487)

33.4 Maturity Profile of Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at date of Statement of Financial Position is given below;

	2017	2016
Weighted Average Duration of Defined Benefit Obligation (Years)	4.95	4.90
Average Time to Benefit Payout (Years)	4.42	4.43

Notes to the Financial Statements

33.5 Distribution of Defined Benefit Obligation Over Future Lifetime

The following table demonstrates distribution of the future working lifetime of the Defined Benefit Obligation as at the Statement of Financial Position Date.

	2017 Rs.	2016 Rs.
Less than 1 year	2,042,893	3,637,170
Between 1 - 2 years	4,800,854	907,320
Between 2 - 5 years	132,376,444	102,240,429
Over 5 years	133,277,199	94,275,563
	272,497,390	201,060,482

34 DEBENTURES

34.1 Amortised Cost

	2017 Rs.	2016 Rs.
Unsecured, Subordinated, Redeemable Debentures	3,039,169,827	3,850,758,620
Unsecured, Senior, Redeemable Debentures	4,107,882,021	4,099,412,254
	7,147,051,848	7,950,170,874

34.2 Capital

	Subordinated		Senior		Total
	Fixed Rs.	Floating Rs.	Fixed Rs.	Floating Rs.	Rs.
As at 1st January 2017	3,140,000,000	610,000,000	2,805,196,400	1,194,803,600	7,750,000,000
Issued during the Year	-	-	-	-	-
Matured during the Year (2012/17 Issue)	(140,000,000)	(610,000,000)	-	-	(750,000,000)
As at 31st December 2017	3,000,000,000	-	2,805,196,400	1,194,803,600	7,000,000,000

34.3 Unsecured Subordinated Redeemable Debentures

2014/2019 Issue

Debentures outstanding as at 31st December 2017, includes of 30,000,000 Rated, Unsecured, Subordinated, Redeemable Debentures of Rs. 100/- each issued by the Bank in 2014 , details of which is given below:

Debentures Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	Capital Outstanding Rs.
Fixed Rate Debentures					
2014/2019 - 9.75% p.a	Listed	Annually	30.10.2014	29.10.2019	1,912,000,000
2014/2019 - 9.5233% p.a	Listed	Semi Annually	30.10.2014	29.10.2019	1,088,000,000
					3,000,000,000

34.4 Unsecured Senior Redeemable Debentures

2015/2018 and 2015/2019 Issue

Debentures outstanding as at 31st December 2017, includes of 40,000,000 Rated, Unsecured, Senior, Redeemable Debentures of Rs. 100/- each issued by the Bank in 2015 , details of which is given below:

Debentures Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	Capital Outstanding Rs.
Fixed Rate Debentures					
2015/2018 - 9.50% p.a	Listed	Semi Annually	29.09.2015	28.09.2018	949,522,300
2015/2019 - 10.00% p.a	Listed	Semi Annually	29.09.2015	28.09.2019	1,855,674,100
					2,805,196,400
Floating Rate Debentures					
2015/2018 -Average of 6 Months Treasury Bill Rate (Net) + 2.5% p.a.	Listed	Semi Annually	29.09.2015	28.09.2018	359,622,400
2015/2019 -Average of 6 Months Treasury Bill Rate (Net) + 3.0% p.a.	Listed	Semi Annually	29.09.2015	28.09.2019	835,181,200
					1,194,803,600
					4,000,000,000

The Bank has not had any defaults of principal, interest or other breaches with regard to any debt obligation during the year.

Notes to the Financial Statements

35 STATED CAPITAL

Voting Ordinary Shares

	2017		2016	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
As at 1st January	295,041,086	1,548,965,702	295,041,086	1,548,965,702
Shares Issued during the Year	147,520,543	2,065,287,602	-	-
As at 31st December	442,561,629	3,614,253,304	295,041,086	1,548,965,702

The Bank offered 147,520,543 ordinary shares at Rs.14/- per share by way of a right issue, (1 share for every 2 shares held) which was fully subscribed and thereby raised a sum of Rs.2,065,287,602/-. The said right issue was concluded on 3rd March 2017.

36 REVALUATION RESERVES

	Rs.
As at 1st January 2016	270,706,610
Revaluation of Freehold Land and Building	-
Realisation of Revaluation Reserve	(6,209,722)
As at 1st January 2017	264,496,888
Revaluation of Freehold Land and Building	372,498,886
Realisation of Revaluation Reserve	(6,362,480)
As at 31st December 2017	630,633,294

37 STATUTORY RESERVE FUND

	Rs.
As at 1st January 2016	241,996,115
Transferred during the Year 2016	62,585,241
As at 1st January 2017	304,581,356
Transferred during the Year 2017	69,525,095
As at 31st December 2017	374,106,451

37.1 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 should be transferred to the Reserve 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 Reserve Fund will be used only for the purpose specified in Section 20 (2) of the Banking Act No. 30 of 1988.

38 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

Financial assets and financial liabilities are measured on an ongoing basis at either fair value or amortised cost. The summary of significant accounting policies in Note 2 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyse the carrying amount of financial assets and liabilities by category as defined in LKAS 39 - Financial Instruments : Recognition and measurement and by Statement of Financial Position heading:

As at 31st December 2017	Financial Assets Held for Trading at Fair Value Rs.	Available for Sale Financial Assets at Fair Value Rs.	Financial Assets and Liabilities at Amortised Cost Rs.	Derivative Financial Instruments at Fair Value Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	1,665,040,665	-	1,665,040,665
Balances with Central Bank of Sri Lanka	-	-	6,884,017,912	-	6,884,017,912
Placements with Banks	-	-	237,368,087	-	237,368,087
Derivative Financial Instruments	-	-	-	16,091,393	16,091,393
Financial Assets - Held for Trading	4,549,189,029	-	-	-	4,549,189,029
Loans and Receivables to Banks	-	-	653,087,844	-	653,087,844
Loans and Receivables to Other Customers	-	-	109,139,936,050	-	109,139,936,050
Financial Investments - Available for Sale	-	6,157,847	-	-	6,157,847
Financial Investments - Held to Maturity	-	-	12,287,192,426	-	12,287,192,426
Total Financial Assets	4,549,189,029	6,157,847	130,866,642,984	16,091,393	135,438,081,253
Financial Liabilities					
Due to Banks	-	-	2,497,901,244	-	2,497,901,244
Derivative Financial Instruments	-	-	-	7,366,561	7,366,561
Due to Other Customers	-	-	107,193,029,640	-	107,193,029,640
Term Debt and Other Borrowed Funds	-	-	8,465,786,791	-	8,465,786,791
Debentures	-	-	7,147,051,848	-	7,147,051,848
Total Financial Liabilities	-	-	125,303,769,523	7,366,561	125,311,136,084

Notes to the Financial Statements

As at 31st December 2016	Financial Assets Held for Trading at Fair Value Rs.	Available for Sale Financial Assets at Fair Value Rs.	Financial Assets and Liabilities at Amortised Cost Rs.	Derivative Financial Instruments at Fair Value Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	1,703,449,614	-	1,703,449,614
Balances with Central Bank of Sri Lanka	-	-	6,218,564,125	-	6,218,564,125
Placements with Banks	-	-	75,096,992	-	75,096,992
Derivative Financial Instruments	-	-	-	26,279,628	26,279,628
Financial Assets - Held for Trading	629,744,707	-	-	-	629,744,707
Loans and Receivables to Banks	-	-	754,131,408	-	754,131,408
Loans and Receivables to Other Customers	-	-	95,833,759,322	-	95,833,759,322
Financial Investments - Available for Sale	-	6,157,847	-	-	6,157,847
Financial Investments - Held to Maturity	-	-	21,753,428,446	-	21,753,428,446
Total Financial Assets	629,744,707	6,157,847	126,338,429,907	26,279,628	127,000,612,089
Financial Liabilities					
Due to Banks	-	-	14,238,391,649	-	14,238,391,649
Derivative Financial Instruments	-	-	-	-	-
Due to Other Customers	-	-	91,456,409,639	-	91,456,409,639
Term Debt and Other Borrowed Funds	-	-	6,762,947,720	-	6,762,947,720
Debentures	-	-	7,950,170,874	-	7,950,170,874
Total Financial Liabilities	-	-	120,407,919,882	-	120,407,919,882

39 FAIR VALUE OF FINANCIAL INSTRUMENTS

39.1 Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

(a) Derivatives

Derivative products valued with market-observable inputs are mainly currency swaps and forward foreign exchange contracts. Such valuations incorporate various inputs such as foreign exchange spot and forward rates.

(b) Financial Investments - Available for Sale

Available for Sale Financial Assets valued using valuation techniques or pricing models primarily consist of unquoted equities.

(c) Financial Assets Held for Trading

Quoted Equities and Sri Lanka Government Securities - Treasury Bills and Bonds included in Financial Assets Held for Trading are valued using market prices.

39.2 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 techniques.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

(a) The following table shows an analysis of financial instruments and non financial assets and liabilities recorded at fair value by level of fair value hierarchy.

As at 31st December 2017	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	16,091,393	-	16,091,393
Financial Assets - Held for Trading				
Equities	12,107,420	-	-	12,107,420
Sri Lanka Government Securities - Treasury Bills and Bonds	4,537,081,609	-	-	4,537,081,609
Financial investments - Available for Sale	-	6,157,847	-	6,157,847
	4,549,189,029	22,249,240	-	4,571,438,269
Non Financial Assets				
Land - Revalued	-	-	1,014,910,000	1,014,910,000
Building - Revalued	-	-	444,303,853	444,303,853
	-	-	1,459,213,853	1,459,213,853
Financial Liabilities				
Derivative Financial Instruments	-	7,366,561	-	7,366,561
	-	7,366,561	-	7,366,561

As at 31st December 2016	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	26,279,628	-	26,279,628
Financial Assets - Held for Trading				
Equities	12,723,051	-	-	12,723,051
Sri Lanka Government Securities - Treasury Bills and Bonds	617,021,656	-	-	617,021,656
Financial investments - Available for Sale	-	6,157,847	-	6,157,847
	629,744,707	32,437,475	-	662,182,182
Non Financial Assets				
Land - Revalued	-	-	492,346,500	492,346,500
Building - Revalued	-	-	433,554,007	433,554,007
	-	-	925,900,507	925,900,507

Notes to the Financial Statements

(b) The following table shows the total gains and losses (excluding interest and dividend income) recognised in profit or loss during the year relating to assets and liabilities held at the year end.

	Net Trading Income	
	2017 Rs.	2016 Rs.
Financial Assets		
Derivative Financial Instruments	8,724,832	26,279,628
Financial Assets - Held for Trading		
- Equities	(615,631)	(1,983,702)
- Sri Lanka Government Securities - Treasury Bills and Bonds	8,641,695	(2,110,380)
	16,750,895	22,185,546

(c) Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	2017		2016	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Financial Assets				
Cash and Cash Equivalents	1,665,040,665	1,665,040,665	1,703,449,614	1,703,449,614
Balances with Central Bank of Sri Lanka	6,884,017,912	6,884,017,912	6,218,564,125	6,218,564,125
Placements with Banks	237,368,087	237,368,087	75,096,992	75,096,992
Loans and Receivables to Banks	653,087,844	645,049,444	754,131,408	715,834,208
Loans and Receivables to Other Customers	109,139,936,050	109,117,695,702	95,833,759,322	95,715,049,775
Financial Investments - Held to Maturity	12,287,192,426	12,355,870,076	21,753,428,446	21,343,272,064
Total Financial Assets	130,866,642,984	130,905,041,886	126,338,429,907	125,771,266,778
Financial Liabilities				
Due to Banks	2,497,901,244	2,497,901,244	14,238,391,649	14,238,391,649
Due to Other Customers	107,193,029,640	106,995,491,897	91,456,409,639	91,003,944,343
Term Debt and Other Borrowed Funds	8,465,786,791	8,465,786,791	6,762,947,720	6,762,947,720
Debentures	7,147,051,848	7,147,051,848	7,950,170,874	7,950,224,660
Total Financial Liabilities	125,303,769,523	125,106,231,780	120,407,919,882	119,955,508,372

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity it is assumed that the carrying amounts approximate their fair value. This assumption is applied for Cash and Cash Equivalents, Balances with Central Bank of Sri Lanka, Placements with Banks, Securities Purchased under Re-sale Agreements. This assumption is also applied to demand deposits, savings accounts without a specific maturity, floating rate instruments, fixed rate instruments having maturities within 12 months and unquoted shares.

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.

39.3 Re-Classification of Financial Assets

The following tables shows the carrying amounts and fair values of financial assets reclassified from 'Held for Trading' to the 'Loans and Receivables' category. All transfers were made on 1st October 2014 at the fair value as at that date. There have been no further reclassifications since then.

Type of Assets Re-classified	2017		2016	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Debentures - Quoted	378,091,602	374,129,516	579,052,279	555,377,777

The following table shows the total fair value gains or losses and net interest income that would have been recognised during the year, if the Bank had not reclassified financial assets from the 'Held for Trading' to the 'Loans and Receivables' category. This disclosure is provided for information purposes only. It does not reflect what has actually been recorded in the Financial Statements of the Bank.

	2017 Rs.	2016 Rs.
Fair value gains and (losses) which would otherwise have been recorded after reclassification, during the current year	(2,268,261)	(1,665,116)
Interest Income which would otherwise have been recorded after reclassification, during the current year	13,709,718	28,217,896
Total Profit or (Loss) which would otherwise have been recorded during the year since reclassification	11,441,457	26,552,780
Total Profit or (Loss) which would otherwise have been recorded since reclassification	26,821,634	15,380,177

40 RISK MANAGEMENT

40.1 Introduction

Risk is inherent in Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls as per the risk appetite of the Bank. The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or 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 externally and internally segregated according to the nature of the business. External risk which may be due to changes in Political, Regulatory, and other changes in 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 products which needed close monitoring.

Risk Management Structure

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 define the responsibilities of Corporate and Senior Management personnel, subject to the oversight of the Board. There are Committees at both Board and 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, their fees and their objectivity and independence and maintaining high standards of good Corporate Governance practices to conform to highest ethical standards. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both adhoc and regular reviews of risk management controls and procedures in accordance with Audit Plan, the results of which are reported to the Audit Committee.

Board Credit Committee

The Board of Directors has delegated the responsibility for the oversight of credit management functions of the bank to Board Credit Committee. The Board Credit Committee discharges its main responsibilities to operate a sound credit granting process, maintain an appropriate credit administration, maintain adequate controls over credit risk, identification and administration of problem advances, proper evaluation of new business opportunities, cyclical aspects of internal and external economy and review of facilities sanctioned by the Committee and issue of further instructions, if necessary.

Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee mainly looks into the overall Risk Management aspects of the Bank. The Committee adopts Risk strategies, frameworks, and policies and is also responsible for implementation of these strategies and plans. The Committee meets on quarterly basis and discusses the predetermined Risk goals implemented as per the Bank Wide Risk Management Policy adopted by the Board and review the performances of the management committees. Risk dashboards, Risk aggregation reports along with stress testing mythology are used to assess 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 with the Banks compliance with 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.

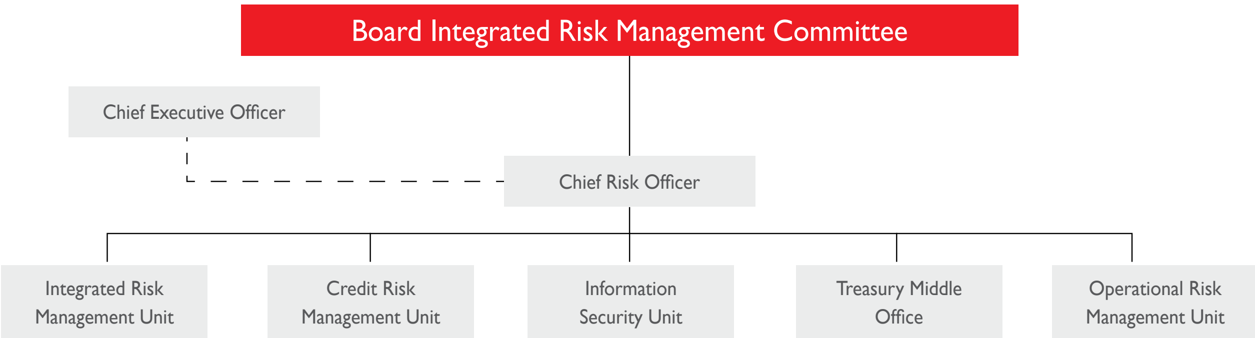
Board Strategic Planning Committee

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 this recommending to the Board, ensuring that the annual budget is prepared to accomplish the goals and objectives of the strategic plan and recommend 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 & acquisitions and recommending the same to the Board and reviewing the adequacy and composition of the Bank's capital structure in the context of the growth targets.

Notes to the Financial Statements

Risk Management Function

Risk Management function which is independent of the business units, performs the role of implementing risk management policies and procedures. Risk Management Unit headed by the Chief Risk Officer is responsible and accountable for controlling of risks, compliance of risk policies and procedures of the Bank. The structure of the risk management unit is as follows;



Each unit monitors the impact on separate risks as specified. These units function independent of each respective business unit 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.

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 policies 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-compliance. Compliance Department also conducts training to familiarise staff with their compliance obligations.

The Bank's risks are recorded according to the breaches that have taken place, expected /predicted losses and unexpected cases which may arise in future. The estimated figures of cases are weekly monitored for prevention and mitigations. These events mainly are taken into account according to the internal risk management process established by the Bank. Monitoring of Risks is done on predetermined limits as per policies. Management Information System reports are generated to the Corporate Management based on these risks indicators. Certain industries are specially highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted based on their daily, weekly and monthly monitoring to the Board/Management committees to measure the risk exposure across all types of risks and activities. This contains the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports will indicate aggregate credit exposure, credit metric forecasts, hold limit exceptions and liquidity ratios. Further elaborations will be done on industry, concentration, customer and geographic risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored weekly for adherence. Delegated authority limits have been imposed to each business units to control exposure to risks. Those outwith such limits are referred to Credit Risk Management Committee/Board Credit Committee for approval.

40.2 Credit Risk

Credit Risk is the loss that the Bank will incur due to failure of a customers or a counterparty to meet their contractual obligations towards the Bank. The Bank manages and controls the risk by establishing limits via proper evaluation for borrowers, counterparties, industries and portfolios. The Bank's risk appetite is also based on economic conditions and regulatory requirements.

Management of Credit Risk

The primary objective of credit risk management is to enable the Bank to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved credit appetite. The Bank has a well defined credit policy approved by the Board of Directors which spells out the credit culture of the Bank, specifying target markets for lending and areas to avoid. The policy is implemented through the credit process, which is set out with clear guidelines and procedures. As a further step towards improving and maintaining uniformity of credit submissions, the Bank has established credit clusters with well trained and experienced staff to evaluate and carry out periodic review of credit facilities.

The Bank's credit risk management process broadly encompasses the following;

a) Loan origination and risk appraisal comprises initial screening and credit appraisal focused on borrowers' ability to meet their commitments in a timely manner. The internal risk rating is an important part of the risk assessment of the customers and incorporated in the credit decision process. This numerical rating denotes the borrower's strength relating to repayment ability, financial condition, industry/business outlook and management quality. A separate alphabetical rating is assigned to customers as the security indicator based on Bank's approved policy on security. The Bank minimises risk by granting credit facilities for customers with high ratings.

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, an independent unit to ensure clear segregation of duties from business units and ensures origination and disbursement of credit are made only after stipulated conditions have been met and relevant security documents are obtained.

d) Post disbursement credit monitoring unit monitors all overdue credit facilities reported to underperforming category to facilitate timely recoveries.

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 behaviour is discussed at Credit Risk Management Committee and Board Credit Committee levels.

f) Non performing advances are managed by the Legal and Recoveries departments. These units are responsible for all aspects of the non performing credit, restructuring of the credit, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all legal recovery matters are finalised, effective integration with Credit Risk and Credit Administration Unit for follow-up action.

The Bank's credit risk management process is articulated in credit policies, which are approved by the Board of Directors. Credit policies lay down the conditions and guidelines for the granting, maintenance, monitoring and management of credit, at both individual transaction and portfolio levels. These policies are documented, well defined, consistent with prudent practices and regulatory requirements and adequate for the nature and complexity of Banks activities. Limits have been prescribed for 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. Collateral is evaluated independently by a valuation panel approval by the Board Credit Committee.

Impairment Assessment

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed.

Notes to the Financial Statements

Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter Bankruptcy or other financial reorganisation
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel III.

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant Loan or Receivable on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should Bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively Assessed Allowances

Allowances are assessed collectively for losses on Loans and Receivables that are not individually significant and for individually significant Loans and Receivables 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, depending on the characteristics of the individual or collective assessment - unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer 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 collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio or economic data. The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. The management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Credit - related Commitment 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 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.

Analysis of Maximum Exposure to Credit risk and Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The Bank obtains cash, gold, securities, property, guarantees, other movable and immovable property as collateral against lending. An approved list of acceptable securities and the applicable percentage of cash security category are defined as per the Credit Policy. These collateral are evaluated independently by a valuation panel and all significant collateral are vetted through a special panel valuation committee for opinion. The management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose off repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Maximum Exposure to Credit risk

	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
As at 31st December 2017		
Balances with Central Bank of Sri Lanka	6,884,017,912	6,884,017,912
Placements with Banks	237,368,087	237,368,087
Derivative Financial Instruments	16,091,393	16,091,393
Financial Assets - Held for Trading	4,549,189,029	4,549,189,029
Loans and Receivables to Banks (Gross)	653,087,844	653,087,844
Loans and Receivables to Other Customers (Gross)	111,351,500,047	27,795,084,487
Financial Investments - Available for Sale	6,157,847	6,157,847
Financial Investments - Held to Maturity	12,287,192,426	12,287,192,426
	135,984,604,585	52,428,189,025
As at 31st December 2016		
Balances with Central Bank of Sri Lanka	6,218,564,125	6,218,564,125
Placements with Banks	75,096,992	75,096,992
Derivative Financial Instruments	26,279,628	26,279,628
Financial Assets - Held for Trading	629,744,707	629,744,707
Loans and Receivables to Banks (Gross)	754,131,408	754,131,408
Loans and Receivables to Other Customers (Gross)	98,509,785,920	26,386,072,794
Financial Investments - Available for Sale	6,157,847	6,157,847
Financial Investments - Held to Maturity	21,753,428,446	21,753,428,446
	127,973,189,073	55,849,475,947

Notes to the Financial Statements

Credit Quality by Class of Financial Assets

The Bank manages the credit quality of financial assets using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

As at 31st December 2017	Neither Past Due Nor Impaired	Past Due But Not Impaired					Individually Impaired	Total
		Upto 90 Days	91-180 Days	181-360 Days	361-540 Days	Over 540 Days		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,665,040,665	-	-	-	-	-	-	1,665,040,665
Balances with Central Bank of Sri Lanka	6,884,017,912	-	-	-	-	-	-	6,884,017,912
Placements with Banks	237,368,087	-	-	-	-	-	-	237,368,087
Derivative Financial Instruments	16,091,393	-	-	-	-	-	-	16,091,393
Financial Assets - Held for Trading	4,549,189,029	-	-	-	-	-	-	4,549,189,029
Loans and Receivables to Banks	653,087,844	-	-	-	-	-	-	653,087,844
Loans and Receivables to Other Customers	78,343,875,714	28,317,762,519	892,250,793	614,438,437	610,214,741	493,269,886	2,079,687,957	111,351,500,047
Financial Investments - Available for Sale	6,157,847	-	-	-	-	-	-	6,157,847
Financial Investments - Held to Maturity	12,287,192,426	-	-	-	-	-	-	12,287,192,426
Total	104,642,020,917	28,317,762,519	892,250,793	614,438,437	610,214,741	493,269,886	2,079,687,957	137,649,645,250

As at 31st December 2016	Neither Past Due Nor Impaired	Past Due But Not Impaired					Individually Impaired	Total
		Upto 90 Days	91-180 Days	181-360 Days	361-540 Days	Over 540 Days		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,703,449,614	-	-	-	-	-	-	1,703,449,614
Balances with Central Bank of Sri Lanka	6,218,564,125	-	-	-	-	-	-	6,218,564,125
Placements with Banks	75,096,992	-	-	-	-	-	-	75,096,992
Derivative Financial Instruments	26,279,628	-	-	-	-	-	-	26,279,628
Financial Assets - Held for Trading	629,744,707	-	-	-	-	-	-	629,744,707
Loans and Receivables to Banks	754,131,408	-	-	-	-	-	-	754,131,408
Loans and Receivables to Other Customers	71,185,747,116	21,963,356,289	1,145,702,927	580,790,438	195,818,966	633,286,979	2,805,083,205	98,509,785,920
Financial Investments - Available for Sale	6,157,847	-	-	-	-	-	-	6,157,847
Financial Investments - Held to Maturity	21,753,428,446	-	-	-	-	-	-	21,753,428,446
Total	102,352,599,883	21,963,356,289	1,145,702,927	580,790,438	195,818,966	633,286,979	2,805,083,205	129,676,638,687

SLFRS 7 : Financial Instruments : Disclosures specifically require the disclosure of quality of loans that are neither impaired nor past due and an analysis of the age of financial assets that are past due but not impaired as at the reporting date. The Bank consider any amounts uncollected for one day or more beyond their contractual due date as 'past due'.

Individually Impaired Loans and Receivables / Financial Assets

All individually significant and Loans and Receivables/Financial Assets which the Bank determines that there is objective evidence of impairment loss and therefore, may not be able or unable to collect all principal and interest due according to the contractual terms are classified as 'Impaired Loans and Receivables/Financial Assets'.

Past Due But Not Impaired Loans and Receivables / Financial Assets

Past Due But Not Impaired Loans and Receivables/Financial Assets are those with contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed, level of security/collateral available and significance of the financial asset.

Credit Risk Exposure for Each Internal Credit Risk Rating

The Bank's policy is to maintain accurate and consistent risk ratings across the lending portfolio. This facilitates focused management of the applicable risks and comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of quantitative and qualitative factors to provide the main inputs for the measurement of counterparty risks.

Risk Rating Grade	Description	2017 Rs.	2016 Rs.
Risk Rating Grade 1	High Safety	42,106,427,110	46,201,140,842
Risk Rating Grade 2	Moderate Safety	47,203,250,845	35,446,735,158
Risk Rating Grade 3	Needs Monitoring	7,355,632,565	3,397,536,125
Risk Rating Grade 4	Substandard Risk	4,147,088,154	4,075,259,866
Risk Rating Grade 5	Very High Risk	142,981,001	53,504,506
		100,955,379,675	89,174,176,497

Securities Purchased under Resale Agreements, Sri Lanka Development Bonds and Quoted Debentures are not rated under Bank's Internal Risk Ratings.

Analysis of Risk Concentration

The Bank's concentrations of risks are managed by client/counterparty and by industry sector. The maximum credit exposure to any customer or a group counterparty as of 31st December 2017 was Rs. 2,275,000,000/- (2016: Rs. 2,275,000,000/-), before taking account of collateral.

Notes to the Financial Statements

Industry Analysis

As at 31st December 2017	Government Rs.	Agriculture and Fishing Rs.	Manufacturing Rs.	Tourism Rs.	Transport Rs.
Cash and Cash Equivalents	1,404,367,099	-	-	-	-
Balances with Central Bank of Sri Lanka	6,884,017,912	-	-	-	-
Placements with Banks	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-
Financial Assets - Held for Trading	4,537,081,609	-	-	-	-
Loans and Receivables to Banks - Gross	-	-	-	-	-
Loans and Receivables to Other Customers - Gross	8,865,418,440	10,171,681,766	10,036,118,840	3,670,902,149	1,103,116,842
Financial Investments - Available for Sale	-	-	-	-	-
Financial Investments - Held to Maturity	12,287,192,426	-	-	-	-
	33,978,077,486	10,171,681,766	10,036,118,840	3,670,902,149	1,103,116,842

As at 31st December 2016	Government Rs.	Agriculture and Fishing Rs.	Manufacturing Rs.	Tourism Rs.	Transport Rs.
Cash and Cash Equivalents	1,205,764,875	-	-	-	-
Balances with Central Bank of Sri Lanka	6,218,564,125	-	-	-	-
Placements with Banks	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-
Financial Assets - Held for Trading	617,021,656	-	-	-	-
Loans and Receivables to Banks - Gross	-	-	-	-	-
Loans and Receivables to Other Customers - Gross	6,207,879,448	10,697,549,305	9,118,327,848	3,258,950,609	1,694,040,849
Financial Investments - Available for Sale	-	-	-	-	-
Financial Investments - Held to Maturity	21,753,428,446	-	-	-	-
	36,002,658,550	10,697,549,305	9,118,327,848	3,258,950,609	1,694,040,849

Construction Rs.	Traders Rs.	New Economy Rs.	Financial and Business Services Rs.	Infrastructure Rs.	Others Rs.	Total Rs.
-	-	-	260,673,566	-	-	1,665,040,665
-	-	-	-	-	-	6,884,017,912
-	-	-	237,368,087	-	-	237,368,087
-	-	-	16,091,393	-	-	16,091,393
-	-	-	12,107,420	-	-	4,549,189,029
-	-	-	653,087,844	-	-	653,087,844
26,877,108,955	16,126,775,082	765,579,949	11,377,110,746	237,513,018	22,120,174,260	111,351,500,047
-	-	-	6,157,847	-	-	6,157,847
-	-	-	-	-	-	12,287,192,426
26,877,108,955	16,126,775,082	765,579,949	12,562,596,903	237,513,018	22,120,174,260	137,649,645,250

Construction Rs.	Traders Rs.	New Economy Rs.	Financial and Business Services Rs.	Infrastructure Rs.	Others Rs.	Total Rs.
-	-	-	497,684,739	-	-	1,703,449,614
-	-	-	-	-	-	6,218,564,125
-	-	-	75,096,992	-	-	75,096,992
-	-	-	26,279,628	-	-	26,279,628
-	-	-	12,723,051	-	-	629,744,707
-	-	-	754,131,408	-	-	754,131,408
21,442,090,227	11,808,138,658	667,488,876	14,803,463,811	104,097,529	18,707,758,760	98,509,785,920
-	-	-	6,157,847	-	-	6,157,847
-	-	-	-	-	-	21,753,428,446
21,442,090,227	11,808,138,658	667,488,876	16,175,537,476	104,097,529	18,707,758,760	129,676,638,687

Notes to the Financial Statements

40.3 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.

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 maturity 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 flow.

The Bank's Liquidity Contingency Plan is a detailed action plan document approved by the Board of Directors of the Bank indicating possible warning indicators, monitoring mechanism and the process for escalation. The plan details the specific action steps and identifies key individuals responsible for the specific action tasks. To limit liquidity risk, the Bank has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. Intraday liquidity management is about managing the daily payments and cash flows. The Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment systems.

The contractual maturities of assets and liabilities of the Bank as at the reporting date are detailed in Note 43.

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 7.5% of Rupee deposit liabilities of the Domestic Banking Unit. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of Statutory Liquid Asset Ratio to customer liabilities, to reflect market conditions. The significant liquidity ratios during the year were as follows:

Advances to Deposit Ratio (ADR)

	2017	2016
Advances to Deposit Ratios		
Average	95.64%	97.03%
Year-end	95.42%	98.43%

The Bank stresses the importance of maintaining a adequate deposit base as sources of funds to finance lending to customers. They are monitored using the Advances to Deposit ratio, which compares Gross Loans and Advances as a percentage of total deposits. Cheques and drafts purchased which are deemed to be liquid, are excluded from the advances to deposit ratio.

Statutory Liquid Asset Ratio (SLAR)

	2017	2016
Average		
Domestic Banking Unit	26.16%	26.58%
Foreign Currency Banking Unit	28.75%	49.72%
Year-End		
Domestic Banking Unit (Minimum Requirement - 20%)	23.25%	28.03%
Foreign Currency Banking Unit (Minimum Requirement - 20%)	27.04%	38.82%

The Bank maintains a healthy Statutory Liquid Asset Ratio (SLAR) at Bank level as well as at the Domestic and Foreign Currency Banking Unit levels. The Bank considers cash balances, Balances with Licensed Commercial Banks, Money at Call in Sri Lanka, Balances with Banks Abroad, Treasury Bills/Bonds and Securities issued or guaranteed by the Government of Sri Lanka, Sri Lanka Development Bonds, Standing Deposit Facility Investments, Gilt Edge Securities, Approved Commercial Papers, Import Bills, Export Bills, Inland Bills and Items in the Process of Collection as "Liquid Assets" for the purpose of Statutory Liquid Asset Ratio Calculation.

Statutory Liquidity Coverage Ratio (LCR)

In addition to Statutory Liquid Asset Ratio (SLAR) requirement, the Bank ensures compliance with Liquidity Coverage Ratio requirement in accordance with 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 (80%) for both Sri Lankan Rupees as well as all currencies throughout the year. These High Quality Liquid Assets are categorised into two categories.

Level I Assets: Include cash in hand, qualifying Central Bank reserves and qualifying marketable securities that attract zero risk weight under Basel III Capital Adequacy Framework.

Notes to the Financial Statements

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 2A 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.

	2017	2016
Average		
Rupee LCR	161.24%	126.93%
All Currency LCR	209.61%	174.01%
Year End		
Rupee LCR	208.84%	163.62%
All Currency LCR	195.36%	230.21%

However, minimum LCR Requirement will be increased up to 100% by 1st January 2019 on staggered basis as given below;

Effective Date	1st January 2016	1st January 2017	1st January 2018	1st January 2019
Minimum LCR Requirement	70%	80%	90%	100%

Contractual Maturities of Undiscounted Cash Flows of Assets and Liabilities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's assets and liabilities as at the end of the reporting period. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

As at 31st December 2017	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	1,665,040,665	-	-	-	1,665,040,665
Balances with Central Bank of Sri Lanka	6,884,017,912	-	-	-	6,884,017,912
Placements with Banks	237,368,087	-	-	-	237,368,087
Derivative Financial Instruments	16,091,393	-	-	-	16,091,393
Financial Assets - Held for Trading	4,549,189,029	-	-	-	4,549,189,029
Loans and Receivables to Banks	25,483,333	80,404,511	547,200,000	-	653,087,844
Loans and Receivables to Other Customers	42,148,750,841	14,473,232,582	42,193,824,244	10,324,128,383	109,139,936,050
Financial Investments - Available for Sale	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	2,844,785,451	5,022,809,223	3,038,340,289	1,381,257,463	12,287,192,426
Total Undiscounted Financial Assets	58,370,726,711	19,576,446,316	45,779,364,533	11,711,543,693	135,438,081,253
Non Financial Assets					
Property, Plant and Equipment	-	-	-	1,989,970,519	1,989,970,519
Intangible Assets	-	-	-	284,390,317	284,390,317
Other Assets	177,991,567	264,001,284	160,430,131	186,819,993	789,242,975
Total Undiscounted Non-Financial Assets	177,991,567	264,001,284	160,430,131	2,461,180,829	3,063,603,811
Total Undiscounted Assets	58,548,718,278	19,840,447,600	45,939,794,664	14,172,724,522	138,501,685,064
Financial Liabilities					
Due to Banks	2,386,482,641	34,200,953	77,217,650	-	2,497,901,244
Derivative Financial Instruments	7,366,561	-	-	-	7,366,561
Due to Other Customers	59,780,760,856	34,669,432,111	10,622,596,516	2,120,240,157	107,193,029,640
Term Debt and Other Borrowed Funds	1,286,874,657	465,746,292	5,641,517,272	1,071,648,570	8,465,786,791
Debentures	107,882,021	1,359,205,278	5,679,964,549	-	7,147,051,848
Total Undiscounted Financial Liabilities	63,569,366,736	36,528,584,634	22,021,295,987	3,191,888,727	125,311,136,084
Non Financial Liabilities					
Current Tax Liabilities	-	550,341,567	-	-	550,341,567
Deferred Tax Liabilities	-	-	-	630,734,284	630,734,284
Other Provisions and Accruals	229,535,579	-	-	-	229,535,579
Other Liabilities	403,605,877	435,989,947	137,177,298	133,277,199	1,110,050,321
Total Undiscounted Non-Financial Liabilities	633,141,456	986,331,514	137,177,298	764,011,483	2,520,661,751
Total Undiscounted Liabilities	64,202,508,192	37,514,916,148	22,158,473,285	3,955,900,210	127,831,797,835
Net Undiscounted Financial Assets / (Liabilities)	(5,198,640,025)	(16,952,138,318)	23,758,068,546	8,519,654,966	10,126,945,169
Net Undiscounted Assets / (Liabilities)	(5,653,789,914)	(17,674,468,548)	23,781,321,379	10,216,824,312	10,669,887,229

Notes to the Financial Statements

As at 31st December 2016	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	1,703,449,614	-	-	-	1,703,449,614
Balances with Central Bank of Sri Lanka	6,218,564,125	-	-	-	6,218,564,125
Placements with Banks	75,096,992	-	-	-	75,096,992
Derivative Financial Instruments	26,279,628	-	-	-	26,279,628
Financial Assets - Held for Trading	629,744,707	-	-	-	629,744,707
Loans and Receivables to Banks	20,804,638	66,439,188	666,887,582	-	754,131,408
Loans and Receivables to Other Customers	46,116,197,251	8,340,357,981	34,867,459,327	6,509,744,763	95,833,759,322
Financial Investments - Available for Sale	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	4,787,294,143	9,951,070,129	5,536,089,871	1,478,974,303	21,753,428,446
Total Undiscounted Financial Assets	59,577,431,098	18,357,867,298	41,070,436,780	7,994,876,913	127,000,612,089
Non Financial Assets					
Property, Plant and Equipment	-	-	-	1,489,391,189	1,489,391,189
Intangible Assets	-	-	-	315,704,246	315,704,246
Other Assets	126,439,165	177,164,475	170,690,979	171,077,109	645,371,728
Total Undiscounted Non-Financial Assets	126,439,165	177,164,475	170,690,979	1,976,172,544	2,450,467,163
Total Undiscounted Assets	59,703,870,263	18,535,031,773	41,241,127,759	9,971,049,457	129,451,079,252
Financial Liabilities					
Due to Banks	12,968,756,494	1,257,827,556	11,807,599	-	14,238,391,649
Due to Other Customers	50,840,749,140	36,151,446,727	4,043,058,978	421,154,794	91,456,409,639
Term Debt and Other Borrowed Funds	830,005,307	410,603,224	4,081,232,500	1,441,106,689	6,762,947,720
Debentures	918,500,855	32,094,140	6,999,575,879	-	7,950,170,874
Total Undiscounted Financial Liabilities	65,558,011,796	37,851,971,647	15,135,674,956	1,862,261,483	120,407,919,882
Non Financial Liabilities					
Current Tax Liabilities	-	411,032,731	-	-	411,032,731
Deferred Tax Liabilities	-	-	-	445,769,180	445,769,180
Other Provisions and Accruals	170,399,266	-	-	-	170,399,266
Other Liabilities	506,961,935	439,427,576	103,147,749	94,275,563	1,143,812,823
Total Undiscounted Non-Financial Liabilities	677,361,201	850,460,307	103,147,749	540,044,743	2,171,014,000
Total Undiscounted Liabilities	66,235,372,997	38,702,431,954	15,238,822,705	2,402,306,226	122,578,933,882
Net Undiscounted Financial Assets / (Liabilities)	(5,980,580,698)	(19,494,104,349)	25,934,761,824	6,132,615,430	6,592,692,207
Net Undiscounted Assets /(Liabilities)	(6,531,502,734)	(20,167,400,181)	26,002,305,054	7,568,743,231	6,872,145,370

Contractual Maturities of Commitments and Contingencies

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31st December 2017	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Contingencies					
Guarantees	2,129,115,608	1,514,751,837	251,651,903	-	3,895,519,348
Documentary Credit	2,066,343,518	128,618,349	-	-	2,194,961,867
Forward Foreign Exchange Contracts	1,085,964,711	-	-	-	1,085,964,711
Currency Swaps	12,649,403,847	-	-	-	12,649,403,847
	17,930,827,684	1,643,370,186	251,651,903	-	19,825,849,773
Commitments					
Undrawn Credit Commitments	12,600,539,620	-	-	-	12,600,539,620
	12,600,539,620	-	-	-	12,600,539,620
Total (Note 44)	30,531,367,304	1,643,370,186	251,651,903		32,426,389,393

As at 31st December 2016	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Contingencies					
Guarantees	930,678,148	537,084,546	1,841,923,919	98,610,695	3,408,297,308
Documentary Credit	616,004,185	494,620,495	-	-	1,110,624,680
Forward Foreign Exchange Contracts	2,037,578,023	-	-	-	2,037,578,023
Currency Swaps	10,924,016,243	608,160,000	-	-	11,532,176,243
	14,508,276,599	1,639,865,041	1,841,923,919	98,610,695	18,088,676,254
Commitments					
Undrawn Credit Commitments	7,369,496,213	-	-	-	7,369,496,213
	7,369,496,213	-	-	-	7,369,496,213
Total (Note 44)	21,877,772,812	1,639,865,041	1,841,923,919	98,610,695	25,458,172,467

In order to match with amended contingency presentation method, comparative figures were adjusted appropriately.

Notes to the Financial Statements

40.4 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices and credit spreads 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. In the process, ALCO reviews interest rate risk, liquidity risk, The Bank's view on interest rates with competitor rates, exchange forecasts etc.

The Board approved comprehensive policy documents on Market and Liquidity Risk management, Investments, and Stress Testing in place at Bank to mitigate the market risks. In addition, a policy document defining the responsibilities of each treasury units i.e. front, back and middle office is in place. The Strategies and policies are being continuously updated according to the evolving business requirements of the Bank as well as regulatory requirements. Treasury Middle Office functions as an independent unit reporting to Chief Risk Officer.

Treasury Middle Office of the Bank monitors the comprehensive framework of Treasury operating limits approved by the Board, including open position limits, dealer limits, counter party limits, gap limits, Foreign Currency Banking Unit and Domestic operation limits on a daily basis and takes prompt action when necessary. Separate risk goals are set for market risk management and on a quarterly basis and Board Integrated Risk Management Committee reviews these risk goals and provides valuable input and direction.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest Rate Risk results from the differences in the way interest rate changes affect the values of assets, liabilities, and off balance sheet instruments.

The interest rate sensitivity of Banks portfolio depends on the characteristics of the financial instruments that make up the portfolio. The interest rate sensitivity of a financial instrument depends on maturity and repricing characteristics of the financial instruments.

The Bank presently prepares the Sensitivity of Assets and Liabilities according to CBSL guideline for Interest Rate Sensitive Assets and Liabilities in prescribed time bands which is presented to Bank's Assets and Liabilities Committee on a monthly basis. Gaps are identified between assets and liabilities and the same is used to prepare the Interest Rate Risk Report.

	2017	2016
Increase in interest rates (%)	2%	2%
Effect on Profit or Loss and Equity (Rs.)	260,781,766	(120,266,914)
Decrease in interest rates (%)	(2%)	(2%)
Effect on Profit or Loss and Equity (Rs.)	(271,880,993)	146,936,333

Interest Rate Sensitivity Analysis

The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities. The Bank's Financial Assets and Liabilities are included at carrying amount and categorised by earlier of contractual re-pricing or maturity dates.

As at 31st December 2017	Interest Bearing				Non Interest Bearing	Total
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and Cash Equivalents	-	-	-	-	1,665,040,665	1,665,040,665
Balances with Central Bank of Sri Lanka	-	-	-	-	6,884,017,912	6,884,017,912
Placements with Banks	237,368,087	-	-	-	-	237,368,087
Derivative Financial Instruments	-	-	-	-	16,091,393	16,091,393
Financial Assets - Held for Trading	4,537,081,609	-	-	-	12,107,420	4,549,189,029
Loans and Receivables to Banks	248,283,332	4,804,512	400,000,000	-	-	653,087,844
Loans and Receivables to Other Customers	80,784,067,492	18,390,093,635	9,295,472,180	670,302,743	-	109,139,936,050
Financial Investments - Available for Sale	-	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	2,844,785,451	5,022,809,223	3,038,340,289	1,381,257,463	-	12,287,192,426
Total Financial Assets	88,651,585,971	23,417,707,370	12,733,812,469	2,051,560,206	8,583,415,237	135,438,081,253
Financial Liabilities						
Due to Banks	2,242,163,829	34,200,953	77,217,650	-	144,318,812	2,497,901,244
Derivative Financial Instruments	-	-	-	-	7,366,561	7,366,561
Due to Other Customers	54,551,649,273	34,669,432,112	10,622,596,516	2,120,240,157	5,229,111,582	107,193,029,640
Term Debt and Other Borrowed Funds	2,710,868,551	4,563,918,240	1,191,000,000	-	-	8,465,786,791
Debentures	1,302,685,621	999,582,878	4,844,783,349	-	-	7,147,051,848
Total Financial Liabilities	60,807,367,274	40,267,134,183	16,735,597,515	2,120,240,157	5,380,796,955	125,311,136,084
Total Interest Rate Sensitivity Gap	27,844,218,697	(16,849,426,813)	(4,001,785,046)	(68,679,951)	3,202,618,282	10,126,945,169

Notes to the Financial Statements

As at 31st December 2016	Interest Bearing				Non Interest Bearing	Total
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and Cash Equivalents	-	-	-	-	1,703,449,614	1,703,449,614
Balances with Central Bank of Sri Lanka	-	-	-	-	6,218,564,125	6,218,564,125
Placements with Banks	75,096,992	-	-	-	-	75,096,992
Derivative Financial Instruments	-	-	-	-	26,279,628	26,279,628
Financial Assets - Held for Trading	617,021,656	-	-	-	12,723,051	629,744,707
Loans and Receivables to Banks	-	349,157,377	404,974,031	-	-	754,131,408
Loans and Receivables to Other Customers	62,029,528,713	25,079,077,844	8,045,020,276	680,132,489	-	95,833,759,322
Financial Investments - Available for Sale	-	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	4,787,294,143	6,198,820,129	9,288,339,871	1,478,974,303	-	21,753,428,446
Total Financial Assets	67,508,941,504	31,627,055,350	17,738,334,178	2,159,106,792	7,967,174,265	127,000,612,089
Financial Liabilities						
Due to Banks	12,839,768,028	1,257,827,556	11,807,600	-	128,988,465	14,238,391,649
Due to Other Customers	45,373,380,904	36,151,446,727	4,043,058,978	421,154,797	5,467,368,233	91,456,409,639
Term Debt and Other Borrowed Funds	2,225,587,607	3,345,360,113	1,192,000,000	-	-	6,762,947,720
Debentures	2,145,398,595	-	5,804,772,279	-	-	7,950,170,874
Total Financial Liabilities	62,584,135,134	40,754,634,396	11,051,638,857	421,154,797	5,596,356,698	120,407,919,882
Total Interest Rate Sensitivity Gap	4,924,806,370	(9,127,579,046)	6,686,695,321	1,737,951,995	2,370,817,567	6,592,692,207

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. This represents exposures the Bank has due to changes in the values of current holdings and future cash flow positions denominated in currencies other than the home currency.

Management of Currency Risk

The Bank's foreign exchange exposure is affected by movements in exchange rates. A Sensitivity analysis is used to measure the potential impact on Bank's adverse movement in exchange rate by giving adverse shocks for Net Open Position (NOP) of the Bank including the on balance sheet and off balance sheet exposures and assess the results thereafter according to the policy. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Equity Price Risk

Equity price risk arises from the possibility that equity prices will fluctuate affecting the value of quoted equities.

Management of Equity Price Risk

The Bank does not hold any investment for strategic purposes other than the unquoted investments which are held for regulatory purposes. The value of quoted securities held in Bank's trading portfolio are directly linked to equity prices of Colombo Stock Exchange with increases/ decreases being monitored and marked to market. A Sensitivity analysis is carried out by a stress testing exercise that assesses the impact of the fall in the stock market index which is according to Bank's policy. However, the Bank does not hold a significant investment in quoted or unquoted shares as at the reporting period date.

All investments held for trading are valued at market prices as at the reporting period date and resulting gains and losses are taken into books as unrealised gain. Unquoted investments classified as 'Available for Sale' are carried at cost in the Statement of Financial Position.

40.5 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 are inherent in the Bank's activities are managed within acceptable levels through an appropriate level of management focus on resources.

Management of Operational Risk

The Bank has an operational risk management policy approved by Board of Directors which clearly demonstrates the objectives and procedures in managing operational risks. This policy manual outlines the internal operating policies of the Bank's Operational Risk Management framework. The Board Integrated Risk Management Committee oversees the implementation of the operational risk management framework.

41 NET ASSET VALUE PER ORDINARY SHARE

	2017	2016
Total Equity Holders Funds (Rs.)	10,669,887,229	6,872,145,370
Number of Ordinary Shares in Issue	442,561,629	295,041,086
Net Asset Value per Share (Rs.)	24.11	23.29

42 ADDITIONAL CASH FLOW INFORMATION

42.1 Cash and Cash Equivalents for Cash Flow Purpose

	2017 Rs.	2016 Rs.
Cash in Hand (Note 16)	1,404,367,099	1,205,764,875
Balances with Foreign Banks (Note 16)	260,673,566	497,684,739
Placements with Banks (Note 18)	237,368,087	75,096,992
	1,902,408,752	1,778,546,606

The Statutory Balances with the Central Bank of Sri Lanka is not available to finance the Bank's day-to-day operations and therefore, is not considered as a part of cash and cash equivalents.

Notes to the Financial Statements

42.2 Change in Operating Assets

	2017 Rs.	2016 Rs.
Net Change in Statutory Deposit with Central Bank of Sri Lanka	(665,453,787)	(2,051,823,555)
Net Change in Derivative Financial Instruments	10,188,235	(24,735,861)
Net Change in Financial Assets Held for Trading	(3,919,444,322)	(615,037,954)
Net Change in Loans and Receivables to Banks	101,043,564	190,704,275
Net Change in Loans and Receivables to Other Customers	(13,800,562,678)	(12,176,351,614)
Net Change in Other Assets	(143,871,247)	(41,925,800)
	(18,418,100,235)	(14,719,170,509)

42.3 Change in Operating Liabilities

	2017 Rs.	2016 Rs.
Net Change in Due to Banks	(11,740,490,405)	6,722,782,062
Net Change in Other Borrowed Funds	600,617,072	(2,920,197,910)
Net Change in Derivative Financial Instruments	7,366,561	(2,135,543)
Net Change in Due to Other Customers	15,736,620,001	13,759,354,670
Net Change in Other Provisions and Accruals	59,136,313	(7,645,365)
Net Change in Other Liabilities	(93,320,207)	16,776,858
	4,569,929,335	17,568,934,772

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

42.4 Other Non-Cash Items Included in Profit Before Tax

	2017 Rs.	2016 Rs.
Depreciation of Property, Plant and Equipment	180,426,625	192,570,289
Amortisation of Intangible Assets	33,064,752	32,712,249
Loss/(Profit) on Disposal of Property, Plant and Equipment	1,169,518	(4,237,316)
Impairment Losses on Loans and Receivables	497,437,241	529,276,516
Impairment Reversal on Other Assets	(3,051,291)	(1,168,086)
Defined Benefit Plan Expenses	59,590,098	46,835,168
	768,636,943	795,988,820

42.5 Operational Cash Flow from Interest and Dividends

	2017 Rs.	2016 Rs.
Interest Paid	10,059,148,727	6,362,584,856
Interest Received	15,364,501,012	12,892,097,678
Dividends Received	1,129,518	724,518

42.6 Changes in Liabilities arising from Financing Activities

As at 31st December 2017	Stated Capital Rs.	Term Debt Rs.	Debentures Rs.	Total Liabilities relating to Financing Activities Rs.
As at 1st January 2017	1,548,965,702	5,528,588,987	7,950,170,874	15,027,725,563
Cash Flows from Financing Activities				
Receipts/(Repayments)	2,065,287,602	1,074,850,000	(750,000,000)	2,390,137,602
Interest Payments	-	(379,850,308)	(792,693,804)	(1,172,544,112)
Foreign Exchange Rate Movement	-	101,205,000	-	101,205,000
Others *	-	408,368,382	739,574,778	1,147,943,160
As at 31st December 2017	3,614,253,304	6,733,162,061	7,147,051,848	17,494,467,213

As at 31st December 2016	Stated Capital Rs.	Term Debt Rs.	Debentures Rs.	Total Liabilities relating to Financing Activities Rs.
As at 1st January 2016	1,548,965,702	2,884,588,118	7,914,585,687	12,348,139,507
Cash Flows from Financing Activities				
Receipts/(Repayments)	-	2,579,332,500	-	2,579,332,500
Interest Payments	-	(148,917,580)	(760,424,906)	(909,342,486)
Foreign Exchange Rate Movement	-	117,211,882	-	117,211,882
Others *	-	96,374,067	796,010,093	892,384,160
As at 31st December 2016	1,548,965,702	5,528,588,987	7,950,170,874	15,027,725,563

*The 'Others' row includes the effect of accrued but not yet paid interest on Term Debt and Debentures and change in transaction costs.

Notes to the Financial Statements

43 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31st December 2017	Within 12 Months Rs.	Over 12 Months Rs.	Total Rs.
Assets			
Cash and Cash Equivalents	1,665,040,665	-	1,665,040,665
Balances with Central Bank of Sri Lanka	6,884,017,912	-	6,884,017,912
Placements with Banks	237,368,087	-	237,368,087
Derivative Financial Instruments	16,091,393	-	16,091,393
Financial Assets - Held for Trading	4,549,189,029	-	4,549,189,029
Loans and Receivables to Banks	105,887,844	547,200,000	653,087,844
Loans and Receivables to Other Customers	56,621,983,423	52,517,952,627	109,139,936,050
Financial Investments - Available for Sale	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	7,867,594,674	4,419,597,752	12,287,192,426
Property, Plant and Equipment	-	1,989,970,519	1,989,970,519
Intangible Assets	-	284,390,317	284,390,317
Other Assets	441,992,851	347,250,124	789,242,975
Total Assets	78,389,165,878	60,112,519,186	138,501,685,064
Liabilities			
Due to Banks	2,420,683,594	77,217,650	2,497,901,244
Derivative Financial Instruments	7,366,561	-	7,366,561
Due to Other Customers	94,450,192,967	12,742,836,673	107,193,029,640
Term Debt and Other Borrowed Funds	1,752,620,949	6,713,165,842	8,465,786,791
Current Tax Liabilities	550,341,567	-	550,341,567
Deferred Tax Liabilities	-	630,734,284	630,734,284
Other Provisions and Accruals	229,535,579	-	229,535,579
Other Liabilities	839,595,824	270,454,497	1,110,050,321
Debentures	1,467,087,299	5,679,964,549	7,147,051,848
Total Liabilities	101,717,424,340	26,114,373,495	127,831,797,835
Net	(23,328,258,462)	33,998,145,691	10,669,887,229

As at 31st December 2016	Within 12 Months Rs.	Over 12 Months Rs.	Total Rs.
Assets			
Cash and Cash Equivalents	1,703,449,614	-	1,703,449,614
Balances with Central Bank of Sri Lanka	6,218,564,125	-	6,218,564,125
Placements with Banks	75,096,992	-	75,096,992
Derivative Financial Instruments	26,279,628	-	26,279,628
Financial Assets - Held for Trading	629,744,707	-	629,744,707
Loans and Receivables to Banks	87,243,826	666,887,582	754,131,408
Loans and Receivables to Other Customers	54,456,555,232	41,377,204,090	95,833,759,322
Financial Investments - Available for Sale	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	14,738,364,272	7,015,064,174	21,753,428,446
Property, Plant and Equipment	-	1,489,391,189	1,489,391,189
Intangible Assets	-	315,704,246	315,704,246
Other Assets	303,603,640	341,768,088	645,371,728
Total Assets	78,238,902,036	51,212,177,216	129,451,079,252
Liabilities			
Due to Banks	14,226,584,050	11,807,599	14,238,391,649
Due to Other Customers	86,992,195,867	4,464,213,772	91,456,409,639
Term Debt and Other Borrowed Funds	1,240,608,531	5,522,339,189	6,762,947,720
Current Tax Liabilities	411,032,731	-	411,032,731
Deferred Tax Liabilities	-	445,769,180	445,769,180
Other Provisions and Accruals	170,399,266	-	170,399,266
Other Liabilities	946,389,511	197,423,312	1,143,812,823
Debentures	950,594,995	6,999,575,879	7,950,170,874
Total Liabilities	104,937,804,951	17,641,128,931	122,578,933,882
Net	(26,698,902,915)	33,571,048,285	6,872,145,370

44 COMMITMENTS AND CONTINGENCIES

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain risk and are therefore part of the overall risk of the Bank.

Documentary 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. Details of Commitments and Contingencies are given below;

Notes to the Financial Statements

44.1 Contingencies

	2017 Rs.	2016 Rs.
Guarantees	3,895,519,348	3,408,297,308
Documentary Credit	2,194,961,867	1,110,624,680
Forward Foreign Exchange Contracts	1,085,964,711	2,037,578,023
Currency Swaps	12,649,403,847	11,532,176,243
	19,825,849,773	18,088,676,254

44.2 Commitments

	2017 Rs.	2016 Rs.
Undrawn Credit Commitments	12,600,539,620	7,369,496,213
	12,600,539,620	7,369,496,213
Total	32,426,389,393	25,458,172,467

In order to match with amended contingency presentation method, comparative figures were adjusted appropriately.

There are no significant capital commitments as at the date of the Statement of Financial Position (2016-Nil).

44.3 Material Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

Pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a reasonable security to cover the damages are not considered here as the Bank does not expect cash outflows from such claims. However, further adjustments are made to 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.

45 LEASE ARRANGEMENTS

45.1 Operating Lease Commitments - Bank as Lessee

The Bank has entered into commercial leases for branch premises. These lease agreements have an average life of between five and ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments due under such lease agreements as at reporting period are as follows:

	2017 Rs.	2016 Rs.
Within one year	229,835,922	213,236,744
After one year but not more than five years	995,555,756	698,626,056
More than five years	313,074,108	302,487,777
	1,538,465,786	1,214,350,577

The Bank has not entered into any agreements with third parties in the capacity of lessor of an operating lease asset.

45.2 Finance Lease Receivables

The Bank leases a variety of assets such as motor vehicles, machinery and Equipment to third parties under finance leases. At the end of the lease terms assets may be sold to third parties or leased 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 2017	Total Future Minimum Payment Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payment Rs.
Lease Rentals Receivable			
Within one year	4,622,046,403	1,105,942,048	3,516,104,355
After one year but not more than five years	7,234,327,080	1,300,794,250	5,933,532,830
More than five years	-	-	-
	11,856,373,483	2,406,736,298	9,449,637,185

As at 31st December 2016	Total Future Minimum Payment Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payment Rs.
Lease Rentals Receivable			
Within one year	3,927,306,092	930,321,230	2,996,984,862
After one year but not more than five years	6,919,977,251	1,124,456,386	5,795,520,865
More than five years	-	-	-
	10,847,283,343	2,054,777,616	8,792,505,727

Accumulated allowance for uncollectible minimum lease payments are included in impairment for loans and other losses.

Notes to the Financial Statements

46 RELATED PARTY DISCLOSURE

The Bank carries out transactions in the ordinary course of business with parties who are defined as 'Related Parties' in LKAS 24 - ' Related Party Disclosures'. The terms and conditions of such transactions are disclosed under 46.4 and 46.5.

46.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

46.2 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 'Key Management Personnel' in accordance with LKAS 24 : 'Related Party Disclosures'. Accordingly, the Chief Executive Officer and Board of Directors have been identified as 'Key Management Personnel' (KMP) for Accounting and Financial Reporting purposes.

46.3 Compensation of Key Management Personnel of the Bank

The following represents the compensation paid to Key Management Personnel of the Bank.

	2017 Rs.	2016 Rs.
Short-term Benefits	57,440,563	48,594,141
	57,440,563	48,594,141

Short-term benefits represent Salaries, Bonuses and other related expenses of Chief Executive Officer/ Director and fees paid to Non Executive Directors including the Chairman.

46.4 Transactions with Key Management Personnel of the Bank

The Bank enters into transactions, arrangements and agreements with Key Management Personnel and Close family members of Key Management Personnel in the ordinary course of business. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest/commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for specific impairment losses on amounts owed by Key Management Personnel and Close Family Members.

	2017 Rs.	2016 Rs.
Assets		
Loans and Advances	55,067,901	39,733,837
Liabilities		
Deposits and Borrowings	315,883,948	289,970,222
Income and Expenses		
Interest Income	5,812,462	5,717,406
Interest Expense	31,160,425	37,846,706
Net Trading Income	-	2,167,628
Fee and Commission Income	107,956	5,850

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

46.5 Transactions with Other Related Parties of the Bank

In addition to transactions with Key Management Personnel and their Close Family Members, the Bank enters into transactions, arrangements and agreements with entities that have a significant influence over the Bank in the ordinary course of business. The transactions below were made in the ordinary course of business on substantially the same terms, including interest/commission rates and security, as for comparable transactions with unrelated counterparties. The transactions did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for individual impairment losses on amounts owed by related parties.

	2017 Rs.	2016 Rs.
Assets		
Loans and Advances	37,626	704,404,169
Liabilities		
Deposits	5,335,474	2,356,438,400
Securities Sold under Repurchase Agreements	-	64,014,729
Commitments and Contingencies		
Guarantees, Letter of Credit and Others	-	93,886,275
Income and Expenses		
Interest Income	248,772	139,874,705
Interest Expense	222,140	227,006,232
Fee and Commission Income	4,125	2,128,394
Goods and Services Purchased	-	23,570,306

47 EVENTS AFTER THE REPORTING DATE

There were no events after the reporting date which required adjustments to or disclosures in the Financial Statements.

48 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy 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 and adopted by the Central Bank of Sri Lanka.

Enhancement of Minimum Capital Requirements

As per the revised capital augmentation plan approved by Central Bank of Sri Lanka, the Bank has met with Rs.10 billion minimum capital requirement by 31st December 2017. Accordingly, the Bank's Total Common Equity Tier 1 (CET 1) Capital stood at Rs.10,039,253,936 as at 31st December 2017.

However, as per the Banking Act Direction No. 05 of 2017 on Enhancement of Minimum Capital Requirements of Banks, the Bank need to enhance its Total CET 1 Capital to Rs. 20 billion by 31st December 2020. The Bank expects to submit Board approved capital augmentation plan in the ICAAP document for the year 2017 as required by the direction.

Notes to the Financial Statements

Capital Management

The primary objectives of the Bank's capital management policy is to ensure that the Bank complies with externally imposed capital requirements and maintains healthy credit ratings and healthy capital ratios to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. However, these are under constant review by the Board of Directors.

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. For the purpose of the direction, Central Bank of Sri Lanka has identified Banks with over Rs.500 billion asset base as Domestic Systemically Important Banks (D-SIB's) and prescribed higher minimum Capital buffers. Since the Bank's asset base is below Rs. 500 billion at the moment, minimum capital ratio requirements stipulated in below table applies;

Components of Capital	1st July 2017	1st January 2018	1st January 2019
Common Equity Tier 1 Including Capital Conservation Buffer	5.750%	6.375%	7.000%
Total Tier 1 Including Capital Conservation Buffer	7.250%	7.875%	8.500%
Total Capital Ratio Including Capital Conservation Buffer	11.250%	11.875%	12.500%

The 'Total Capital' under Basel III consists Common Equity Tier 1 Capital, which comprises Stated Capital, Statutory Reserve Fund, Published Retained Earnings and Other General Reserves less Cost of Intangible Assets (Adjustments). The other component of Total Capital is Additional Tier 1 Capital and Bank has no any Additional Tier 1 capital instruments as at 31st December 2017. Tier 2 capital is the other component of the Total Capital which includes Approved Revaluation Surpluses, Subordinated Term Debt and General Provisions after adjustments.

The Bank reported a Common Equity Tier 1 Capital Ratio of 11.38% , Total Tier 1 Capital Ratio of 11.38% and Total Capital Ratio of 13.53% which remain above the minimum regulatory requirements.

49 SEGMENT REPORTING

	2017			
	Retail and SME Banking Rs.	Corporate Banking Rs.	Treasury and Investment Rs.	Total Rs.
Gross Income				
Third Party	12,176,425,717	2,527,977,438	2,980,268,386	17,684,671,541
Inter-Segment	1,561,583,444	(131,589,360)	(1,429,994,084)	-
Total Income	13,738,009,161	2,396,388,078	1,550,274,302	17,684,671,541
Extract of Results				
Interest Income	10,811,717,597	2,473,703,407	2,330,592,589	15,616,013,593
Interest Expense	(8,673,541,722)	(1,798,577,839)	(437,620,556)	(10,909,740,117)
Inter - Segment	1,561,583,444	(131,589,360)	(1,429,994,084)	-
Net Interest Income	3,699,759,319	543,536,208	462,977,949	4,706,273,476
Fees and Commission Income	1,354,315,720	53,932,015	28,000	1,408,275,735
Fees and Commission Expense	(85,056,700)	-	(11,275,632)	(96,332,332)
Net Fee and Commission Income/(Expense)	1,269,259,020	53,932,015	(11,247,632)	1,311,943,403
Net Gain from Trading	(615,631)	342,016	391,671,428	391,397,813
Net Gain from Available for Sale Financial Investments	823,500	-	-	823,500
Other Operating Income	10,184,531	-	257,976,369	268,160,900
Impairment for Loans and Other Losses	(436,794,895)	(57,591,055)	-	(494,385,950)
Net Operating Income	4,542,615,844	540,219,184	1,101,378,114	6,184,213,142
Depreciation of Property, Plant and Equipment	140,161,078	24,448,982	15,816,565	180,426,625
Amortisation of Intangible Assets	25,685,740	4,480,489	2,898,523	33,064,752
Segment Result	4,376,769,026	511,289,713	1,082,663,026	5,970,721,765
Unallocated Expenses	-	-	-	3,518,788,216
Value Added Tax and Nation Building Tax on Financial Services	-	-	-	576,477,542
Profit Before Tax	-	-	-	1,875,456,007
Income Tax Expense	-	-	-	484,954,113
Profit for the Year	-	-	-	1,390,501,894
Other Comprehensive Income for the Year	-	-	-	341,952,363
Total Comprehensive Income for the Year	-	-	-	1,732,454,257
Segment Assets	82,749,551,784	18,167,014,112	28,240,659,773	129,157,225,669
Unallocated Assets	-	-	-	9,344,459,395
Total Assets	82,749,551,784	18,167,014,112	28,240,659,773	138,501,685,064
Segment Liabilities	105,523,148,806	16,177,395,167	3,610,592,111	125,311,136,084
Unallocated Liabilities and Equity	-	-	-	13,190,548,980
Total Liabilities and Equity	105,523,148,806	16,177,395,167	3,610,592,111	138,501,685,064

Notes to the Financial Statements

	2016			
	Retail and SME Banking Rs.	Corporate Banking Rs.	Treasury and Investment Rs.	Total Rs.
Gross Income				
Third Party	9,480,584,979	2,681,274,201	2,982,883,066	15,144,742,246
Inter-Segment	1,013,716,587	180,955,472	(1,194,672,059)	-
Total Income	10,494,301,566	2,862,229,673	1,788,211,007	15,144,742,246
Extract of Results				
Interest Income	8,617,250,220	2,361,553,139	2,387,739,576	13,366,542,935
Interest Expense	(5,941,390,031)	(1,773,393,663)	(1,018,380,721)	(8,733,164,415)
Inter - Segment	1,013,716,587	180,955,472	(1,194,672,059)	-
Net Interest Income	3,689,576,776	769,114,948	174,686,796	4,633,378,520
Fees and Commission Income	855,834,964	319,338,561	-	1,175,173,525
Fees and Commission Expense	(56,318,208)	-	(13,134,423)	(69,452,631)
Net Fee and Commission Income/(Expense)	799,516,756	319,338,561	(13,134,423)	1,105,720,894
Net Gain from Trading	-	-	275,095,387	275,095,387
Net Gain from Available for Sale Financial Investments	-	382,500	-	382,500
Other Operating Income	7,499,796	-	320,048,103	327,547,899
Impairment for Loans and Other Losses	(225,782,106)	(302,326,324)	-	(528,108,430)
Net Operating Income	4,270,811,222	786,509,685	756,695,863	5,814,016,770
Depreciation of Property, Plant and Equipment	133,438,434	36,394,175	22,737,680	192,570,289
Amortisation of Intangible Assets	22,667,418	6,182,342	3,862,489	32,712,249
Segment Result	4,114,705,370	743,933,168	730,095,694	5,588,734,232
Unallocated Expenses	-	-	-	3,310,532,717
Value Added Tax and Nation Building Tax on Financial Services	-	-	-	483,265,444
Profit Before Tax	-	-	-	1,794,936,071
Income Tax Expense	-	-	-	543,231,249
Profit for the Year	-	-	-	1,251,704,822
Other Comprehensive Income for the Year	-	-	-	(5,311,942)
Total Comprehensive Income for the Year	-	-	-	1,246,392,880
Segment Assets	68,303,530,530	19,909,460,034	33,162,230,116	121,375,220,680
Unallocated Assets	-	-	-	8,075,858,572
Total Assets	68,303,530,530	19,909,460,034	33,162,230,116	129,451,079,252
Segment Liabilities	88,085,194,240	18,262,753,440	14,059,972,197	120,407,919,877
Unallocated Liabilities and Equity	-	-	-	9,043,159,375
Total Liabilities and Equity	88,085,194,240	18,262,753,440	14,059,972,197	129,451,079,252

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

50 COMPARATIVE INFORMATION

The presentation and classification of certain Financial Statement Items are amended to ensure the comparability with the current year.

	Note	As Previously Reported Rs.	Re-Classification Rs.	Current Presentation Rs.
Other Operating Expenses	50.1	1,909,567,592	12,643,483	1,922,211,075
Income Tax Expense	50.1	555,874,732	(12,643,483)	543,231,249

50.1 Crop insurance levy expense included under ' Income Tax Expense ' has been reclassified in 'Other Operating Expenses' in the Statement of Comprehensive Income (Profit or Loss) for better presentation.

50.2 The above re-classification did not have an impact on the Bank's Statement of Financial Position and Net cash flows from operating/investing/Financing activities in the Statement of Cash Flows or Other Comprehensive Income.

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 38 to the Financial Statements - Analysis of Financial Assets and Liabilities by Measurement basis
1.1.2	Other Disclosures	
	(i) Special disclosures about financial assets and financial liabilities designated to be measured at Fair Value through Profit or Loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Not Applicable
	(ii) Reclassifications of financial instruments from one category to another.	Note 39.3 to the Financial Statements - Re-classification of Financial Assets
	(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note to the Financial Statements - Note 24.1 - Financial Assets Held to Maturity Pledged as a Collateral
	(iv) Reconciliation of the allowance account for credit losses by class of financial assets.	Note 22.4 - Movement in Individual and Collective Impairment during the Year
	(v) Information about compound financial instruments with multiple embedded derivatives.	Not Applicable
	(vi) Significant Breaches of terms of loan agreements.	Not Applicable
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 9 to the Financial Statements - Impairment for Loans and Other Losses
	(iv) Interest income on impaired financial assets.	Note 4 to the Financial Statements - Net Interest Income
1.3	**Other Disclosures**	
1.3.1	Accounting policies for financial instruments.	Note 2.8 to the Financial Statements -Summary of Significant Accounting Policies
1.3.2	Information on hedge accounting	Not Applicable
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:	
	(i) Comparable Carrying Amounts. (ii) Description of how fair value was determined. (iii) The level of inputs used in determining fair value.	Note 39 to the Financial Statements - Fair Value of Financial Instruments
	(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 23 to the Financial Statements - Financial Investments - Available for Sale

Basel III Pillar 3 Disclosures

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Basel III Pillar 3 Disclosures

INTRODUCTION

The Bank believes effective risk management together with better corporate governance contributes to the long term stability and durable credibility of the Bank. Therefore, the Bank places great emphasis continuously on improving risk management processes whilst operating with sufficient level of capital buffer to support its risk absorption capacity and also the continued business expansions.

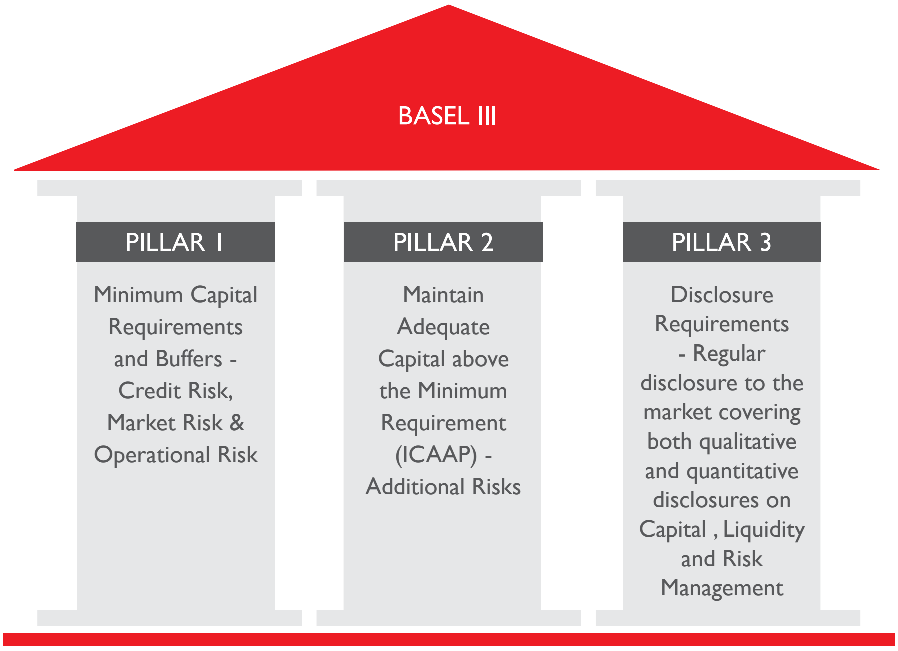
Based on empirical data and close analysis of market behaviour, the Bank is of the belief that effective investment in better risk management systems and processes would facilitate in mitigating the credit risk, market risk and the operational risk factors facing the Bank.

Further use of market discipline is deemed to be an important driver in the enhancement of the risk management system of the Bank as well as the stakeholders' perspective. Therefore, the Bank believes comprehensive disclosure of capital level in relation to the credit risk, market risk and operational risk levels would fulfill the expectations of the regulators as well as other stakeholders at large.

SCOPE OF BASEL III FRAMEWORK

The Basel Committee on Bank Supervision (BCBS) has implemented a set of capital, liquidity and funding reforms known as "Basel III". The objectives of reforms are to increase the quality, consistency and transparency of capital to enhance the risk management framework of Licensed Banks.

Accordingly, the Central Bank of Sri Lanka has issued Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's) on 29th December 2016. As per the direction, Capital Requirements applicable for a Licensed Commercial Bank from 1st July 2017 onwards consist of three pillars.



PILLAR 1 - MINIMUM CAPITAL REQUIREMENTS AND BUFFERS

Commencing from 01st July 2017, every LCB & LSB has to comply with minimum capital ratios and the buffers as prescribed in the direction. The minimum required capitals ratios vary among the Banks depending on the size of the asset base. For the purpose of the direction Central Bank of Sri Lanka has identified Banks with over Rs.500 billion asset base as "Domestic Systemically Important Banks (D-SIB's)" and prescribed higher minimum capital buffers.

Accordingly, Banks have to maintain capital ratios and the buffers as prescribed in the below tables;

Minimum Capital Ratio Requirement for Banks with Assets of Rs.500 billion and above (Table 1)

Components of Capital	1st July 2017	1st January 2018	1st January 2019
Common Equity Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	6.25%	7.375%	8.50%
Total Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	7.75%	8.875%	10.00%
Total Capital Ratio Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	11.75%	12.875%	14.00%

Minimum Capital Ratio Requirement for Banks with Assets less than Rs.500 billion (Table 2)

Components of Capital	1st July 2017	1st January 2018	1st January 2019
Common Equity Tier 1 Including Capital Conservation Buffer	5.75%	6.375%	7.00%
Total Tier 1 Including Capital Conservation Buffer	7.25%	7.875%	8.50%
Total Capital Ratio Including Capital Conservation Buffer	11.25%	11.875%	12.50%

Since the Bank's asset base is below Rs.500 billion at the moment, minimum capital ratio requirements stipulated in Table 2 is applicable. As a player in a highly regulated industry, the Bank must be proactive in planning for capital in order to accomplish the business goals while achieving capital standards set by the regulator.

PILLAR 2 - MAINTAIN ADEQUATE CAPITAL ABOVE THE MINIMUM REQUIREMENT (ICAAP)

The Bank needs to maintain adequate capital buffers to safeguard it self from the risk exposures as specified in the direction. Under Pillar 2, a Board approved ICAAP document needs to be submitted to the Central Bank for supervisory review process. ICAAP lets Banks to identify, analyse and quantify its risk exposures using different methodologies, techniques and to quantify required level of capital to absorb the risks.

Further under Pillar 2, Banks are instructed to scrutinise different types of risks which are not covered/fully captured under Pillar 1. Accordingly, following risk categories also need to be quantified and allocation of capital needs to be done in computing the Pillar 2 Capital Ratios.

- Risks not fully captured under Pillar 1 - concentration risk (credit risk), interest rate/rate of return risk in the banking book (market risk) etc.
- Risk types not covered under Pillar 1 - liquidity risk, concentration risk, reputational risk, compliance risk, strategic and business risk, residual risk. etc. (risks which are not specifically addressed under Pillar I)

The Bank has already developed an ICAAP policy and framework which closely indicate the risk and capital assessment processes which ensures that adequate level of capital are maintained to support the Bank's current and projected demand for capital under expected and stressed conditions.

Basel III Pillar 3 Disclosures

PILLAR 3 - DISCLOSURE REQUIREMENTS

Commencing from 1st July 2017, the Bank needs to disclose the regulator prescribed key information in relation to regulatory capital, liquidity and risk management with the published financial statements, in the annual report and in the web site.

Pillar 3 aims to provide consistent and comprehensive disclosure framework that enhances comparability between Banks and further promotes improvements in risk practices.

The Bank has implemented a Pillar 3 policy and procedure framework to address the requirements laid down for Pillar 3 disclosures.

The complete disclosure report of information regarding capital management in accordance with Basel III- Pillar 3 is provided of which quantitative information regarding capital structure, capital adequacy and monitoring of liquidity standards is disclosed on a quarterly basis. The disclosures on Bank's risk management approach and risk management related to key risk exposures are disclosed on an annual basis.

SCOPE OF APPLICATION

In compliance with the requirements under Basel III Pillar 3 and the Bank's approved policies, the Bank disclose below set of information on quarterly and annual basis as prescribed by CBSL.

1) Regulatory Requirements on Capital Adequacy and Liquidity

i) Key Regulatory Ratios - Capital and Liquidity

ii) Basel III Computation of Capital Adequacy Ratio

iii) Basel III Computation of Liquidity Coverage Ratio

iv) Main Features of Regulatory Capital Instruments

2) Risk Weighted Assets (RWA)

i) Capital Management

ii) Credit under Standardised Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

iii) Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

iv) Market Risk under Standardised Measurement Method

v) Operational Risk under Basic Indicator Approach

3) Linkages Between Financial Statements & Regulatory Exposures

i) Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories

ii) Explanations of Differences between Accounting and Regulatory Exposure Amounts

4) Risk Management

i) Bank Risk Management Approach

ii) Risk Management related to Key Risk Exposures

Previous year Performance at a Glance

The Bank recorded a modest growth in assets while maintaining capital and liquidity levels well above the minimum regulatory requirements during 2017.

Prevailing economic and monetary conditions were less favourable for the wider banking industry and increased government borrowing requirements coupled with the upward adjustment of the statutory reserve requirement at the beginning of year 2016 further continued upward movement in interest rates. Responding to high interest rates in the market, credit to the private sector continues to decelerate during 2017.

Due to same reasons the Bank's loans and advances portfolio growth slowed down during the year. Due to these less favourable monetary and economic conditions, the Bank managed to record a post tax profit of Rs.1.39 billion in 2017, a growth of 11% over the previous year.

Key Regulatory Ratios - Capital and Liquidity

As at 31st December	2017	2016
Regulatory Capital (Rs. 000)		
Total Common Equity Tier I Capital	10,039,254	N/A
Common Equity Tier I Capital	9,754,864	N/A
Total Tier I Capital	9,754,864	N/A
Total Capital	11,588,904	N/A
Regulatory Capital Ratios (%)		
Common Equity Tier I Capital Ratio (Minimum Requirement -5.75%)	11.38	N/A
Total Tier I Capital Ratio (Minimum Requirement -7.25%)	11.38	N/A
Total Capital Ratio (Minimum Requirement -11.25%)	13.53	N/A
Regulatory Liquidity		
Statutory Liquid Assets DBU (Rs. 000)	27,347,197	32,493,941
Statutory Liquid Assets OBU (USD. 000)	7,907	30,178
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	23.25	28.03
Foreign Currency Banking Unit (%)	27.04	38.82
Liquidity Coverage Ratio (%)		
Rupee (Minimum Requirement as at 31st December 2017 - 80%)	208.84	163.62
All Currency (Minimum Requirement as at 31st December 2017 - 80%)	195.36	230.21

CAPITAL MANAGEMENT

Capital planning assists the Bank to determine how much capital it needs to continue its growth and produce meaningful earnings as well as to meet regulatory requirements. For an effective capital plan, the Bank should be able to anticipate;

- when it will be needed
- various methods of raising capital
- the current environment for raising capital
- the best way to protect/enhance shareholder value and the likely pricing of capital

Further the Bank's capital plan is dynamic and regularly reviewed to reflect business forecasts as they evolve during the course of each year. The strategy setting and planning is presented to the Board of Directors on annual basis with regular update on financial outlook and performance as to the capital adequacy is aligned with the business plan.

Basel III Pillar 3 Disclosures

Capital planning of the Bank is mainly focus on;

- Demand for capital due to business growth forecast
- Current & future regulatory capital requirement
- Available supply of capital and capital raising sources for future requirements

Overview of Capital Planning

The senior management of the Bank is responsible for the management of the capital & liquidity and establishment of compliance with internal policies as well as regulatory standards relating to capital & liquidity management.

The Bank's capital position is monitored on a continuous basis and reported to Board Strategic Planning Committee meeting on quarterly basis. The Bank sets the tolerance levels for capital adequacy ratios in the ICAAP mechanism and if any breach, 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 for corrective actions.

In addition, significant emphasis is given to scrutinise the behaviour of the material risk exposures. If any adverse movement is monitored in recovery patterns of the credit exposures on a regular basis, credit monitoring unit of the Bank stays on alert for early detection and recovery process before moving to non performing category. This is exactly why the Bank established a Post Disbursement Unit in 2017 to ensure the facilities would not fall in to delinquent category.

MANAGE THE RISK WEIGHTED ASSETS OF THE BANK

- Maintain Non Performing Advances (NPAs) level in accordance with the set targets by minimising new additions to past due and non performing categories
- Regular monitoring of overdue loans position of the Bank and avert new NPAs
- Ensure capital and interest recoveries are made to the Bank according to the forecasts.
- High yielding lending to good credit quality customers
- Obtain eligible collateral for facilities to minimise capital charge on credit risk
- Concentrate on customers with investment grade or above grades when granting facilities
- More focus towards cash backed/government security backed lending carrying zero risk levels
- Concentrate on Retail and SME lending with background checks in view of lower risk weight and lucrative returns

PROJECTED CAPITAL INITIATIVES/ CAPITAL SOURCES

An assessment of the capital requirements of the Bank is carried out through comprehensive projections of future business that take cognisance of the strategic intent of the Bank, profitability of particular businesses and opportunities for growth. The adequacy of current and future capital is continuously measured and watched quite closely in line with the Bank's short, medium and long term goals stated in the strategic plan plus considering any emerging market opportunities, the Bank could harness for better profits and higher growth. The proper mapping of credit, market and operational risk to this projected business growth enable assignment of capital that not only adequately covers minimum regulatory capital requirement but also provide headroom for growth.

The Bank currently meets all regulatory minimum capital and liquidity standards set for year 2017 accompanied by Rs. 10 billion Total Common Equity Tier 1 capital position build up through fresh capital generated via right issue took place in 2017 together with the internal capital generation during the year.

The Bank remains positive and could generate profits as forecasted to meet the internal capital generation and relevant business heads will be informed for corrective action at early stage to minimise deviations. Accordingly the Bank envisages that CET 1/Tier 1 capital would be in a healthy position and would remain above the minimum capital standards required under capital directions.

However, after reviewing forecasted business growth and the existing capital position, the Bank foresees necessity of issuing Basel III compliant subordinated debt instruments beyond 2017 to enhance the Tier 2 capital position. The existing subordinated debenture is also to be matured by end of year 2019 and there is headroom of 50% of CET1 Capital for a new subordinated debt to be integrated in the total capital position of the Bank.

At the moment, the Bank is in the process of exploring the avenues to raise Basel III compliant subordinated debt from both local and foreign sources to utilise the leeway.

Enhancement of Minimum Capital Requirements

As per the Banking Act Direction No. 05 of 2017 on Enhancement of Minimum Capital Requirements of Banks issued on 26th October 2017 by Central Bank of Sri Lanka commencing from 31st December 2020, Banks have to comply with minimum capital requirements as prescribed below.

Type of Bank	Amount Rs. Billion
Locally incorporated LCBs	20.00
Banks incorporated outside Sri Lanka	
With asset over Rs.100 Bn	10.00
With asset up to Rs.100 Bn	5.00
Locally incorporated LSBs	7.50

The Bank is required to forecast and submit capital augmentation plan to comply with Rs. 20 billion minimum capital target required by CBSL by end of year 2020. At the same time it is noted that for smaller and mid size players in the industry, doubling-up of the Total Common Equity Tier I capital position within next 3 years time would be quite challenging.

Nevertheless, the Bank expects to provide the Board approved capital augmentation plan in the ICAAP document for year 2017 as required in the said direction. As in the previous plan, the Bank would consider both internal & external capital sources when developing the capital augmentation capital plan.

CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The Bank's capital structure according to the Banking Act Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB) and Licensed Specialised Banks (LSB) is revised in to Common Equity Tier I Capital, Additional Tier I Capital and Tier 2 Capital.

Common Equity Tier I (CET I) Capital of the Bank comprises;

- Stated Capital
- Retained Earnings after appropriation
- Statutory Reserve Fund

At present the Bank has no instrument eligible for Additional Tier I (AT1) Capital.

Tier 2 Capital comprises;

- Eligible Subordinated Debt (limited to 50% of CET I Capital)
- General provision for Performing and Special Mention Credit Facilities (limited to 1.25% of risk weighted assets on credit risk)
- Approved Revaluation Surpluses on Freehold Land and Building (Subject to discount of 50%)

Basel III Pillar 3 Disclosures

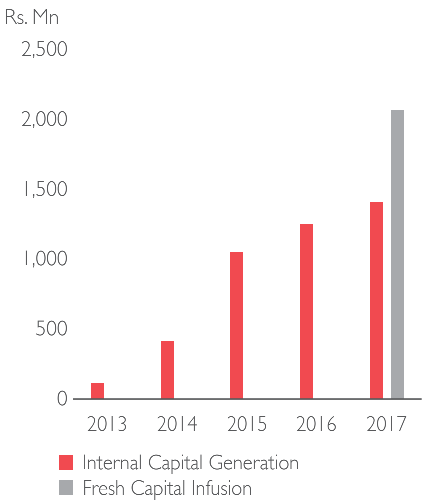
As per the regulatory directive maximum eligible Tier 2 capital is capped at 100% of CET1 Capital.

In adopting Basel III, capital instruments that do not meet the eligibility criteria for inclusion in CET1 capital has to be eliminated with effect from 01st July 2017. However, the Bank does not own any CET1 capital instrument that is needed to be phased out when adopting Basel III.

The Structure of the Total Regulatory Capital of the Bank

As at 31st December 2017	Amount Rs. 000
Common Equity Tier I (CETI) Capital after Adjustments	9,754,864
Total Common Equity Tier I (CET1) Capital	10,039,254
Stated Capital	3,614,253
Reserve Fund	374,107
Published Retained Earnings	6,050,894
Total Adjustments to CET1 Capital	284,390
Intangible Assets	284,390
Additional Tier 1 (AT1) Capital after Adjustments	-
Tier 2 Capital after Adjustments	1,834,040
Total Tier 2 Capital	1,834,040
Qualifying Tier 2 Capital Instruments	1,050,000
Revaluation Gains	315,317
General Provisions	468,723
Total Adjustments to Tier 2 Capital	-
Total Tier 1 Capital	9,754,864
Total Capital	11,588,904

CAPITAL GENERATION



Basel III Computation of Capital Ratios

As at 31st December	2017 Rs. 000	2016 Rs. 000
Common Equity Tier I (CET1) Capital after Adjustments	9,754,864	N/A
Total Common Equity Tier I (CET1) Capital	10,039,254	N/A
Equity Capital - Stated Capital (a)	3,614,253	N/A
Reserve Fund	374,107	N/A
Published Retained Earnings	6,050,894	N/A
Published Accumulated Other Comprehensive Income (OCI)	-	N/A
General and other Disclosed Reserves	-	N/A
Unpublished Current Year's Profit/Losses and Gains reflected in OCI	-	N/A
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	N/A
Total Adjustments to CET1 Capital	284,390	N/A
Goodwill (net)	-	N/A
Intangible Assets (net)	284,390	N/A
Others	-	N/A
Additional Tier I (AT1) Capital after Adjustments	-	N/A
Total Additional Tier I (AT1) Capital	-	N/A
Qualifying Additional Tier I Capital Instruments	-	N/A
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	N/A
Total Adjustments to AT1 Capital	-	N/A
Investment in Own Shares	-	N/A
Others	-	N/A
Tier 2 Capital after Adjustments	1,834,040	N/A
Total Tier 2 Capital	1,834,040	N/A
Qualifying Tier 2 Capital Instruments (b)	1,050,000	N/A
Revaluation Gains (c)	315,317	N/A
Loan Loss Provisions	468,723	N/A
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	N/A
Total Adjustments to Tier 2 Capital	-	N/A
Investment in Own Shares	-	N/A
Others	-	N/A
CET1 Capital	9,754,864	N/A
Total Tier I Capital	9,754,864	N/A
Total Capital	11,588,904	N/A
Total Risk Weighted Assets (RWA)	85,683,217	N/A
RWAs for Credit Risk	76,883,248	N/A
RWAs for Market Risk	508,835	N/A
RWAs for Operational Risk	8,291,134	N/A
CET1 Capital Adequacy Ratio (including Capital Conservation Buffer) (%)	11.38	N/A
of which: Capital Conservation Buffer (%)	1.25	N/A
Total Tier I Capital Adequacy Ratio (%)	11.38	N/A
Total Capital Adequacy Ratio (including Capital Conservation Buffer) (%)	13.53	N/A
of which: Capital Conservation Buffer (%)	1.25	N/A

Basel III Pillar 3 Disclosures

Regulatory Changes / Capital Initiatives over the Period

During 2017, the Bank successfully met the regulatory minimum capital target of Rs. 10 billion set by Central Bank of Sri Lanka under the approved capital augmentation plan. The Bank surpassed the interim capital target of Rs. 7.5 billion required by 31st March 2017 and crossed to final hurdle of Rs. 10 billion required under the minimum capital phase in arrangement approved by Central Bank of Sri Lanka.

Internal capital generation together with capital Infusion made via the right issue during 2017 contributed towards achieving the above milestone within the set time frame.

a) Common Equity Tier I Capital

In March 2017, the Bank raised Rs. 2.06 billion via a right issue of Ordinary Shares which contributed enhancing the Bank's Common Equity Tier I & Tier I & Total Capital considerably.

The details of the Rights Issue is as follows;

No. of Shares Issued	147,520,543
Proportion	1 Ordinary Share for Each 2 Shares held
Rights Issue Price	Rs.14.00
Capital Raised	Rs. 2,065,287,602
Date Listed	03rd March 2017

Further the Bank's CET1 capitaal before adjustments as at 31st December 2017 stood at Rs.10.04 billion with the retention of full year profit of Rs.1.39 billion.

b) Tier 2 Capital

Qualifying Tier 2 Capital Instruments

The Bank's subordinated debentures of Rs. 750 million issued in October 2012, matured in March 2017,resulting in a decline in value of qualifying Tier 2 Capital Instruments during the year.

There was no Tier 2 eligible capital instrument issuance took place within the Bank during the year.

However, the Bank is in the process of searching for Basel III compliant subordinated debts form local & foreign sources with the prior approval of CBSL.

c) Revaluation Surpluses on Freehold Land and Building

As per the Banking Act Direction for Basel III Capital Requirements, the Bank can include 50% of revaluation gains arising from valuation of Land and Building once in every 3 years as a part of Tier 2 Capital.

Accordingly the Bank's Freehold Land & Buildings have been revalued in 2017 by Mr. J. M. S. Bandara, Chartered Valuation Surveyor and the Bank included 50% of the revaluation surpluses as a part of Tier 2 capital with the approval of Monetary Board of the Central Bank of Sri Lanka.

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

	Ordinary Shares	Subordinated Debt
Issuer	Pan Asia Banking Corporation PLC	Pan Asia Banking Corporation PLC
CSE Security Code	PABC N0000	PABC D0300 PABC D0301
Governing Law(s) of the Instrument	Companies Act, No.7 of 2007	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949
Original Date of Issuance	Multiple	30th October 2014
Par Value of Instrument (Rs.)	N/A	100
Perpetual or Dated	Perpetual	Dated
Original Maturity Date	N/A	29th October 2019
Regulatory Treatment		
Instrument Type	Common Equity Tier I	Tier 2 Capital
Amount recognised in Regulatory Capital (Rs. million)	3,614	1,050
Accounting Classification (Equity/Liability)	Shareholders' Equity	Liability (Subordinated Term Debts)
Issuer Call subject to Prior Supervisory Approval	No	Yes
Optional Call Date, Contingent Call Dates and Redemption Amount	N/A	Early repayment or redemption shall not be made without the prior consent from CBSL. The redemption amount of the debentures equal to total outstanding principal (Rs. 3,000 million) plus accrued interest
Coupons/Dividends		
Fixed or Floating Dividend/Coupon	Discretionary dividend amount	Fixed Rate
Coupon Rate and any Related Index	Distributable profit that has been declared as dividend	9.75% (Annual Interest Payment) 9.5233% (Semi Annual Interest Payment)
Non-Cumulative or Cumulative	Non Cumulative	Non Cumulative
Convertible or Non-Convertible	Non-Convertible	Non-Convertible

BANK RISK MANAGEMENT APPROACH

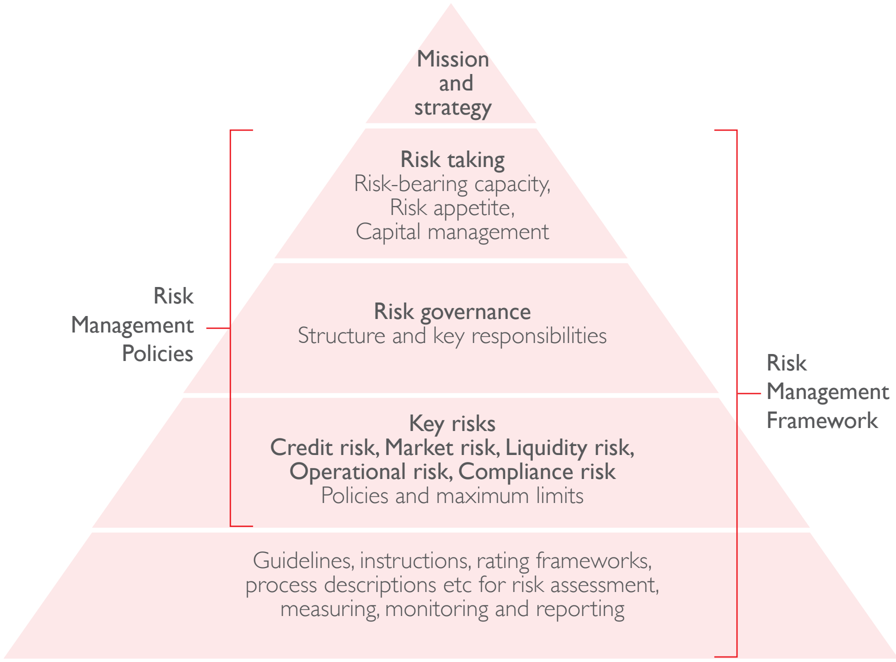
Risk Management

Managing risk constitutes an integral part in the role of banking operations and also in the areas of strategic decisions of the Bank. The main objective of the Bank's risk management unit is to asses various risk factors that affect the Bank and to develop risk mitigating techniques incorporating industry best practices and stipulations given by the regulator. The Bank's exposure to risk can be broadly categorised into credit risk, market risk and operational risk. In addition to these risks, the impact of other risks such as liquidity risk, reputational risk, compliance risk, strategic risk, information security risk and legal risk are monitored to avoid any additional impact to the Bank. Therefore, the Bank has set up separate units to manage credit risk, market risk, operational risk and information security risks.

The overall risk management aspects of the Bank are reviewed via risk goals and tolerance/ exposure limits set by the Board Integrated Risk Management Committee.

Basel III Pillar 3 Disclosures

The high-level principles for risk management are implemented through policies, operational procedures, guidelines as well as methodologies, tolerance & exposure limits and tools for risk measuring, monitoring and reporting. The risk management framework of the Bank is formed by incorporating all these factors and same is illustrated in the below diagram.



Further information on Risk Management can be found in;

- Risk Management objectives, policies and processes and Risk Management structure - pages 176 & 177 of Bank's Annual Report 2017
- Risk Management function - page 178 of Bank's Annual Report 2017

Channels to communicate and inculcating the risk culture within the Bank

The responsibility of understanding the risks assumed by the Bank and ensuring that the risks are appropriately managed is vested with the Board of Directors. The Board ensures that the Bank has established a robust and acceptable risk culture with clear policies that define risk management as the responsibility of the Bank's corporate and senior management subject to the oversight of the Board establishing limits based on risk appetite of the Bank. The senior management has established an integrated risk management framework in order to assess and appropriately manage various risk exposures of the Bank, develop systems to monitor risk exposures and relate them to Bank's capital on an ongoing basis, establishing methods to monitor the Bank's compliance with internal policies relating to risk management and effectively communicate all policies and procedures throughout the Bank via Bank's intranet and training programmes. All policies and procedures are effectively documented in the form of policy manuals, circular instruction, work flow processes and published in the Bank's intranet to provide the access to all staff members of the Bank.

The scope and main features of risk measurement systems for key risks

The Bank continuously reviews and improves risk assessment tools for different types of risks that the Bank faces in line with the growth of portfolios. The tools including credit rating and credit scoring tools are implemented in systems to ensure efficiency of rating/scoring and model performance monitoring. Moreover, the Bank has also put in place of a Risk aggregation matrix to assess the overall risk of the Bank by aggregating the overall score of each risk area. Risk dash boards are maintained to monitor all risk parameters and stress tests are being carried out in regular intervals, under various possible stress scenarios, to access the Bank's ability to face those conditions comfortably if those scenarios are actually triggered.

Process of risk information reporting provided to the Board and Senior Management

The Bank's risks are recorded according to the breaches that have taken place, expected /predicted losses and unexpected cases which may arise in future. The estimated figures of cases are monitored on regular intervals for prevention and mitigations. These events are in line with the internal risk management processes established by the Bank. Monitoring of risk is carried out against predetermined limits as per policies. Management Information System reports are generated and submitted to the Corporate Management based on these risks indicators. Certain industries are identified specially and highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted on agreed intervals to the Board/Management committees to measure the risk exposure across all types of risks and activities. This contains the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports indicate aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios. Further elaborations are done on industry, concentration, customer and geographical risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored regularly for adherence. Delegated authority limits have been imposed to each approving authority in the business lines to control exposure to risks. Those outwit such limits are referred to Credit Risk Management Committee/Board Credit Committee for approval.

STRESS TESTING

Stress testing is an important risk management tool that is used by the Bank as part of internal risk management measures. The Stress testing alerts the Bank management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur.

Moreover, stress testing is a tool that supplements other risk management approaches and measures. It plays a particularly important role in:

- Providing forward-looking assessments of risk.
- Feeding into capital and liquidity planning procedures.
- Informing the setting of the Banks' risk tolerance.
- Facilitating the development of risk mitigation or contingency plans across a range of stressed conditions.

The Main Risk drivers may be identified under following areas;

On and off balance sheet activities, business strategy, portfolio composition, asset quality, reputational events, operating environment, macro-economic factors (interest rate, foreign exchange rate, inflation, GDP growth, unemployment rate, asset prices, property price index), geographical and political factors, historical events; and latest development in the economic, political, geographical and global conditions and perspectives.

Stress Testing Approaches and Applications

Stress testing approaches that the Bank adopts to ascertain the risks of the portfolios.

Sensitivity Analysis

This assesses the impact on a Bank's financial condition of a move in one particular risk factor, identify how portfolios respond to shifts in relevant economic variables or risk parameters. i.e. Banks exposures, activities, and risks when certain variables, parameters and inputs are 'stressed' or 'shocked.'

Scenario Analysis

Single factor analysis can be supplemented by simple multi-factor sensitivity analyses, where a combined occurrence of some risk drivers is assumed, without necessarily having a scenario in mind. Scenario tests include simultaneous moves in a number of variables based on the following and the assessment of their impact on the Bank's financial position.

- A single event experienced in the past.
- A plausible market event that has not yet happened. The Bank shall determine the various risks that shall be included in a scenario, take into account the linkages among the various risks without looking at each of them.

THE STRATEGIES AND PROCESSES TO MANAGE, HEDGE AND MITIGATE RISKS

Possible credit losses from any given event, client or portfolio are mitigated using a range of tools such as collateral, credit insurance, credit derivatives taking into account expected volatility and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the protection provider. The requirement for risk mitigation is not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

The Bank's credit policies detailed out the guidelines of key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements. The Bank has policies and procedures in place setting out the criteria for collateral to be recognised as a credit risk mitigant, including requirements concerning legal certainty, priority, concentration, correlation, liquidity and valuation parameters such as frequency of review and independence.

Basel III Pillar 3 Disclosures

Types of Collateral

Collateral types that are eligible for risk mitigation include cash, residential, commercial and industrial property, fixed assets such as motor vehicles, plant and machinery, marketable securities, commodities, Bank guarantees and letters of credit. Physical collateral, such as property, fixed assets and commodities and financial collateral must be independently valued and an active secondary resale market must exist. The valuation frequency sets as per the CBSL direction and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure.

For financial collateral to be eligible for recognition, the collateral must be sufficiently liquid, and its value over time sufficiently stable, to provide appropriate certainty as to the credit protection achieved.

Documentation is obtained in favour of the Bank to realise the collateral without the intervention of the obligor in the event that this is necessary. For certain types of lending, typically mortgages or asset financing where a first charge over the risk mitigant must be attained, the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. Physical collateral is required to be insured at all times against risk of physical loss or damage.

Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of liquidation. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios. The Bank also seeks to diversify its collateral holdings across asset classes and markets.

Where guarantees, credit insurance or credit derivatives are used as credit risk mitigation, the creditworthiness of the protection provider is assessed and monitored using the same credit approval process applied to the obligor. The main types of guarantors include Bank guarantees, insurance companies, parent companies, governments and export credit agencies.

Credit Concentration

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

Sector Concentration

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

Strategic Risk

Strategic Risk is the risk arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation.

Reputation Risk

Reputation Risk is the risk arising from negative public opinion. This risk may expose the institution to litigation, financial loss or decline in customer base.

RISK WEIGHTED ASSETS

CREDIT RISK

Credit Risk is the potential for loss due to the failure of counterparty to meet its obligation to pay the Bank in accordance with agreed terms. It is managed through a framework that setout credit policies, procedures and credit approval authority delegation. Further policies are decided to reflect the country specific risk environment and portfolio characteristics of the Bank.

The Bank computes risk weighted assets on credit exposures using the Standardised Approach. In assigning risk weights for calculation of risk weighted assets using the Standardised Approach under Basel III, the Bank uses credit ratings from External Credit Assessment Institutions (ECAIs) who meet the qualifications specified by the CBSL. The credit ratings from External Credit Assessment Institutions are applied to risk weight the claims on Banks, financial institutions and corporate customers. Claims on Retail and SME customers are risk weighted based on the criteria's specified in the directions.

Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31st December 2017	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	28,259,267	-	28,259,267	-	-	0%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	1,153,588	12,308,601	1,153,588	246,172	744,764	53%
Claims on Financial Institutions	4,508,810	870,197	4,508,810	37,226	2,428,074	53%
Claims on Corporates	9,423,268	2,139,234	9,370,095	602,218	8,742,107	88%
Retail Claims	76,635,917	14,937,254	65,724,026	1,946,552	54,125,426	80%
Claims Secured by Gold	2,369,866	-	2,369,866	-	444,177	19%
Claims Secured by Residential Property	4,306,735	-	4,306,735	-	3,083,939	72%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	3,526,115	-	3,526,115	-	4,760,219	135%
Higher-risk Categories	6,158	-	6,158	-	9,237	150%
Cash Items and Other Assets	3,971,370	-	3,971,370	-	2,545,305	64%
Total	134,161,094	30,255,286	123,196,030	2,832,168	76,883,248	61%

Note:

(i) NPAs – As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning.

(ii) RWA Density – Total RWA/Exposures post CCF and CRM.

FINANCIAL AND INVESTOR INFORMATION

Basel III Pillar 3 Disclosures

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (Post CCF & CRM)

As at 31st December 2017	Risk Weight								Total Credit
Asset Class	0%	0.2%	20%	50%	60%	75%	100%	150%	Exposures Amount
	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	28,259,267	-	-	-	-	-	-	-	28,259,267
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	246,172	260,674	892,914	-	-	-	-	1,399,760
Claims on Financial Institutions	-	-	1,021,904	2,613,157	-	-	910,975	-	4,546,036
Claims on Corporates	-	-	123,223	2,559,323	-	-	7,289,767	-	9,972,313
Retail Claims	-	-	341,174	166,227	730,400	53,011,970	13,420,807	-	67,670,578
Claims Secured by Gold	148,982	-	2,220,884	-	-	-	-	-	2,369,866
Claims Secured by Residential Property	-	-	-	2,445,590	-	-	1,861,145	-	4,306,735
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	-	7,018	-	-	1,043,872	2,475,225	3,526,115
Higher-risk Categories	-	-	-	-	-	-	-	6,158	6,158
Cash Items and Other Assets	1,404,367	-	27,123	-	-	-	2,539,880	-	3,971,370
Total	29,812,616	246,172	3,994,982	8,684,229	730,400	53,011,970	27,066,446	2,481,383	126,028,198

Credit Risk under Standardised Approach Classified by Geographical Area of Debtor - Before CCF CRM

As at 31st December 2017	Outside	Province									Total
Asset Classes	Sri Lanka	Western	Southern	Northern	Central	North Western	Eastern	Sabaragamu-wa	North Central	Uva	
	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	-	28,259,267	-	-	-	-	-	-	-	-	28,259,267
Claims on Banks Exposures	260,674	13,201,515	-	-	-	-	-	-	-	-	13,462,189
Claims on Financial Institutions	-	5,376,499	-	-	2,508	-	-	-	-	-	5,379,007
Claims on Corporates	-	10,982,220	264	-	80,015	500,003	-	-	-	-	11,562,502
Retail Claims	-	65,307,830	5,092,007	1,224,443	8,126,247	3,681,331	1,464,747	2,773,819	2,423,974	1,478,773	91,573,171
Claims Secured by Gold	-	413,465	99,547	578,136	249,292	305,525	504,358	134,308	44,023	41,212	2,369,866
Claims Secured by Residential Property	-	3,170,786	238,620	51,434	401,076	88,521	36,435	185,135	88,108	46,620	4,306,735
Non-Performing Assets (NPAs)	-	2,381,424	357,979	66,264	293,155	140,580	35,746	161,073	59,618	30,276	3,526,115
Higher-risk Categories	-	6,158	-	-	-	-	-	-	-	-	6,158
Cash Items and Other Assets	-	3,971,370	-	-	-	-	-	-	-	-	3,971,370
Total	260,674	133,070,534	5,788,417	1,920,277	9,152,293	4,715,960	2,041,286	3,254,335	2,615,723	1,596,881	164,416,380

Non Performing Loans and Advances Vs Provisions- by Sector/Industry

(As per Regulatory Reporting)

As at 31st December 2017 Industry	NPA Capital Rs. 000	Specific Provision Rs. 000
Agriculture & Fishing	190,005	42,944
Manufacturing	403,549	59,990
Tourism	320,975	22,041
Transport	34,967	5,517
Construction	904,727	189,573
Traders	796,336	146,405
New Economy	51,417	16,771
Financial and Business Services	619,277	145,585
Other Services	436,044	21,635
Other Customers	616,358	197,080
Total	4,373,655	847,541

Non Performing Loans and Advances Vs Provisions - by Geography

(As per Regulatory Reporting)

As at 31st December 2017 Province	NPA Capital Rs. 000	Specific Provision Rs. 000
Western	3,107,949	726,526
Southern	379,635	21,657
Nothern	73,280	7,017
Central	318,717	25,560
North Western	173,009	32,429
Eastern	46,484	10,738
Sabaragamuwa	168,447	7,374
North Central	72,893	13,275
Uva	33,241	2,965
Total	4,373,655	847,541

Basel III Pillar 3 Disclosures

Gross Loans & Advances - by Sector / Industry

(As per Regulatory Reporting)

As at 31st December 2017	Performing Loans & Advances Rs. 000	Special Mention (NPLs) Rs. 000	Substandard (NPLs) Rs. 000	Doubtful (NPLs) Rs. 000	Loss (NPLs) Rs. 000	Total (NPLs) Rs. 000	Total Loans & Advances Rs. 000
Agriculture & Fishing	10,141,376	51,586	26,675	20,708	91,036	190,005	10,331,381
Manufacturing	9,823,797	79,751	94,554	110,017	119,227	403,549	10,227,346
Tourism	3,396,072	82,751	96,874	1,068	140,282	320,975	3,717,047
Transport	917,437	16,668	7,850	1,376	9,073	34,967	952,404
Construction	24,298,588	229,203	337,205	75,893	262,426	904,727	25,203,315
Traders	15,488,833	148,077	108,778	152,884	386,597	796,336	16,285,169
New Economy	709,829	1,745	1,831	22,036	25,805	51,417	761,246
Financial and Business Services	9,396,286	5,179	35,235	272,051	306,812	619,277	10,015,563
Infrastructure	234,163	-	-	-	-	-	234,163
Other Services	7,889,767	212,898	171,742	16,803	34,601	436,044	8,325,811
Other Customers	13,606,495	131,880	94,572	86,932	302,974	616,358	14,222,853
Total	95,902,643	959,738	975,316	759,768	1,678,833	4,373,655	100,276,298

Gross Loans & Advances - by Geography

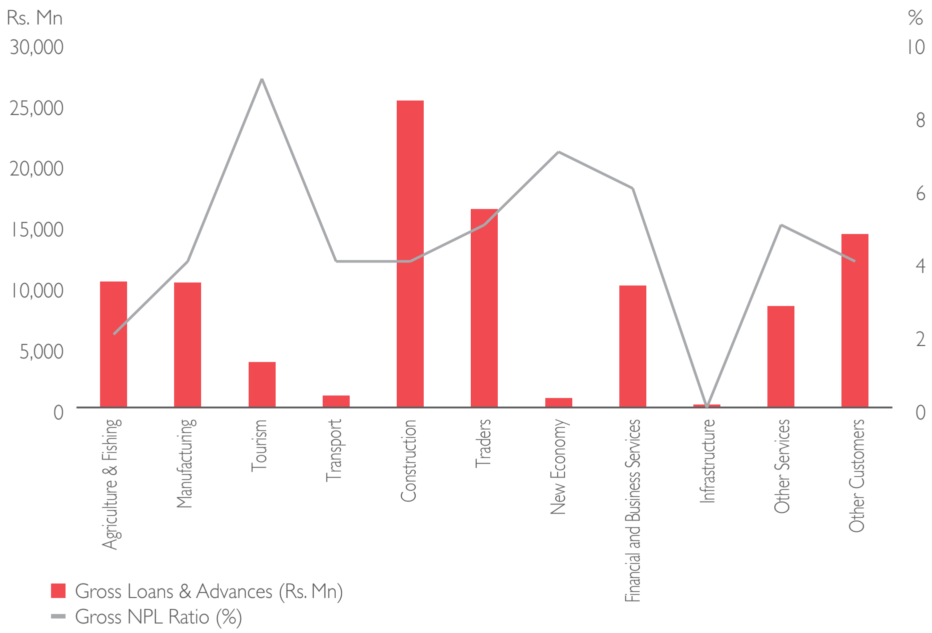
(As per Regulatory Reporting)

As at 31st December 2017	Performing Loans & Advances Rs. 000	Special Mention (NPLs) Rs. 000	Substandard (NPLs) Rs. 000	Doubtful (NPLs) Rs. 000	Loss (NPLs) Rs. 000	Total (NPLs) Rs. 000	Total Loans & Advances Rs. 000
Western	68,066,566	553,427	595,012	650,865	1,308,645	3,107,949	71,174,515
Southern	5,252,769	197,953	47,935	7,856	125,891	379,635	5,632,404
Northern	1,824,433	19,776	29,883	9,165	14,456	73,280	1,897,713
Central	7,870,923	62,588	169,769	38,046	48,314	318,717	8,189,640
North Western	3,932,205	28,327	43,833	24,249	76,600	173,009	4,105,214
Eastern	1,981,806	18,581	10,806	3,672	13,425	46,484	2,028,290
Sabaragamuwa	2,924,125	45,304	38,753	15,007	69,383	168,447	3,092,572
North Central	2,513,222	20,545	29,733	9,148	13,467	72,893	2,586,115
Uva	1,536,594	13,237	9,592	1,760	8,652	33,241	1,569,835
Total	95,902,643	959,738	975,316	759,768	1,678,833	4,373,655	100,276,298

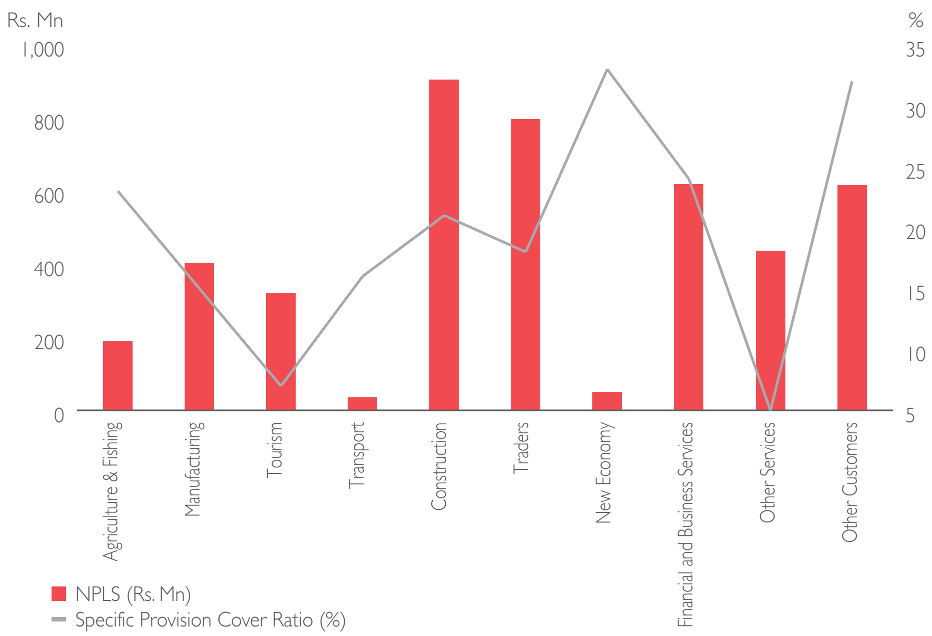
Further Explanation on the Bank approach to manage credit risk can be found in:

- Graphical presentation of exposures subject to credit risk by major types, geographical areas, sectors and risk rating wise - page 70 of Bank's Annual Report 2017.
- Maximum Exposures to Credit Risk by asset class - page181of Bank's Annual Report 2017.
- Industry Analysis of Financial Assets - pages 184 & 185 of Bank's Annual Report 2017.
- Break down of credit exposures classified by residual maturity - pages 189 to 191 of Bank's Annual Report 2017.
- Breakdown of exposures subject to credit risk in to impaired and non impaired including impairment allowances and the explanation on non impaired and impaired loans - pages 182 & 183 of Bank's Annual Report 2017.
- Movement in individual and collective impairment - page 159 of Bank's Annual Report 2017.

GROSS LOANS & ADVANCES VS GROSS NPL RATIO - BY INDUSTRY



NPLS VS SPECIFIC PROVISION COVER RATIO - BY INDUSTRY



Basel III Pillar 3 Disclosures

RECONCILIATION OF REGULATORY CAPITAL TO FINANCIAL STATEMENTS

As at 31st December 2017	a Carrying Values as Reported in Published Financial Statements Rs. 000	b Carrying Values under Scope of Regulatory Reporting Rs. 000	c Subject to Credit Risk Framework Rs. 000	d Subject to Market Risk Framework Rs. 000	e Not subject to Capital Requirements or Subject to Deduction from Capital Rs. 000
Assets	138,501,685	138,462,491	133,612,820	4,565,280	284,390
Cash and Cash Equivalents	1,665,041	1,665,041	1,665,041	-	-
Balances with Central Bank of Sri Lanka	6,884,018	6,884,018	6,884,018	-	-
Placements with Banks	237,368	237,368	237,368	-	-
Derivative Financial Instruments	16,091	16,091	-	16,091	-
Financial Assets Held-For-Trading	4,549,189	4,549,189	-	4,549,189	-
Loans and Receivables to Banks	653,088	653,088	653,088	-	-
Loans and Receivables to Other Customers (Note 01)	109,139,936	109,391,183	109,391,183	-	-
Financial Investments - Available for Sale	6,158	6,158	6,158	-	-
Financial Investments - Held to Maturity	12,287,192	12,287,192	12,287,192	-	-
Property, Plant and Equipment	1,989,971	1,989,971	1,989,971	-	-
Intangible Assets	284,390	284,390	-	-	284,390
Other Assets (Note 02)	789,243	498,801	498,801	-	-
Liabilities	138,501,685	138,462,491	-	-	-
Due to Banks	2,497,901	2,497,901	-	-	-
Derivative Financial Instruments	7,367	7,367	-	-	-
Due to Other Customers (Note 03)	107,193,030	107,360,132	-	-	-
Other Borrowings	8,465,787	8,465,787	-	-	-
Debt Securities Issued	4,107,882	4,107,882	-	-	-
Current Tax Liabilities (Note 05)	550,342	595,911	-	-	-
Deferred Tax Liabilities (Note 05)	630,734	606,415	-	-	-
Other Provisions & Accruals	229,536	229,536	-	-	-
Other Liabilities (Note 04)	1,110,050	1,067,443	-	-	-
Subordinated Term Debts	3,039,170	3,039,170	-	-	-
Off-Balance Sheet Liabilities					
Guarantees	3,166,432	3,166,432	3,166,432	-	-
Performance Bonds	729,087	729,087	729,087	-	-
Letters of Credit	2,194,962	2,194,962	2,194,962	-	-
Other Contingent Items	13,735,369	13,735,369	13,735,369	-	-
Undrawn Loan Commitments	12,600,540	12,600,540	12,600,540	-	-
Shareholders' Equity					
Equity Capital - Stated Capital	3,614,253	3,614,253	-	-	-
of which Amount Eligible for CET1	3,614,253	3,614,253	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings (Note 06)	6,050,894	5,874,898	-	-	-
Accumulated Other Comprehensive Income	-	-	-	-	-
Other Reserves (Note 06)	1,004,740	995,796	-	-	-
Total Shareholders' Equity	10,669,887	10,484,947	-	-	-

Reconciliation Notes

Note 01- Loans and Receivables to Other Customers

As at 31st December 2017	Rs. 000
Loans and Receivables to Other Customers	
Carrying Value as per Published Financial Statements (SLFRSs)	109,139,936
Carrying Value as per Regulatory Reporting	109,391,183
Change in Value (a) + (b)	(251,247)

(a) Loan Loss Provisioning

The Bank recognises impairment provisions for loans and advances in accordance with LKAS 39 - Financial Instruments: Recognition and Measurement in SLFRS Financial Statements, whereas provisions of the Banking Act directions for Classification of Loans and Advances, income recognition and provisioning are applied for regulatory reporting purposes.

As at 31st December 2017	Rs. 000
Loan Loss Provisions as per Published Financial Statements (SLFRSs)	2,211,564
Corresponding Provisions as per Regulatory Reporting	2,250,758
Change in Value	39,195

(b) Fair Value Adjustment on Staff Loans at Concessionary Rates

SLFRSs require staff loans granted at concessionary rates to be measured at market interest rates to ascertain the fair value. The difference adjusted to the carrying amount of staff loans.

As at 31st December 2017	Rs. 000
Staff Loans as per Published Financial Statements (SLFRSs)	821,813
Staff Loans as per Regulatory Reporting	1,112,254
Change in Value	(290,442)

Note 02 - Other Assets

SLFRSs require staff loans granted at concessionary rates to be measured at fair value, based on the market interest rates prevailed at the time of granting the loan. The difference is recognised as a prepaid employee benefit and charged to income statement under 'personnel expenses', while interest income is accrued at the relevant market rates over the period of the loan.

As at 31st December 2017	Rs. 000
Other Assets as per Published Financial Statements (SLFRSs)	789,243
Other Assets as per Regulatory Reporting	498,801
Change in Value	290,442

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Note 03 - Due to Other Customers (Deposits)

The Bank accrues interest expenses on longer maturity deposits at effective interest rates in the published financial statements whereas interest accrual in regulatory financial statements takes place on straight line basis.

As at 31st December 2017	Rs. 000
Deposits/Due to Other Customers as per Published Financial Statements (SLFRSs)	107,193,030
Deposits/Due to Other Customers as per Regulatory Reporting	107,360,132
Change in Value	(167,103)

Note 04 - Other Liabilities

Fees earned for the provision of services over a period of time is accrued over that period. Fees earned from trade related activities which are not accrued over the contracted period have been redistributed by reversing the amount not relevant for the accounting period from current year profit & loss. Accordingly, a sum of Rs.29.31 million has been reversed from the income and reported under other liabilities in the statement of financial position. Further, provisions for VAT and NBT tax expenses on financial services and crop insurance levy expenses also have been re-instated with above adjustments and additional tax liability of Rs.13.30 million has been recognised under the other liabilities in the statement of financial position.

As at 31st December 2017	Rs. 000
Other Liabilities as per Published Financial Statements (SLFRSs)	1,110,050
Other Liabilities as per Regulatory Reporting	1,067,443
Change in Value	42,607

Note 05 - Current and Deferred Tax Liabilities

Current and deferred tax liabilities have been re-instated (Net reversal of Rs. 21.25 million) with the above adjustments made in the published financial statements.

Note 06 - Shareholders Equity

Shareholder funds have been re-instated (Net increase/credit of Rs. 184.94 million) with the above adjustments made in the published financial statements.

Valuation Methodologies

A marked to market (MTM) valuation is performed mainly on assets prone for volatility. This applies mainly to the Held for Trading (HFT) portfolio since it is the portfolio most prone to market volatility & the same is maintained to benefit from market volatilities.

One such asset class is the Treasury bill and Treasury bond portfolio. Since these are government issued instruments that are risk free and have a very active secondary market. These instruments have two valuation methodologies which are Effective Interest Rate (EIR) method and straight line. However as regulated by the Central Bank of Sri Lanka, Banks are allowed only to report to the regulator using the EIR method & the same is adopted by the Bank for the calculation of the MTM. MTM of the portfolios are performed on a daily basis by Treasury Middle Office (TMO) and for the same the rates are obtained from Public Debt Department of Central Bank of Sri Lanka. As a prudent measure, the Bank has enforced internal limits on stop losses.

Another asset class that MTM is performed is the equity trading portfolio of the Bank. The Bank do not trade heavily in the equity portfolio since the capital loss of the investment is of great concern to the Bank. Therefore equity valuations are performed on monthly basis using the prices as appearing in the monthly publications of the Colombo Stock Exchange (CSE).

The trading unit trust portfolios valuation is similar to the equity calculation methodology and the frequency of valuation. However since most of the unit trust instruments are not traded in an exchange, the net asset value or the market value is obtained through the relevant unit trust fund manager.

The foreign exchange position which should be within the limit as dictated by the regulator is valued in terms of Sri Lankan rupees on a daily basis by using exchange rates prevailing at the end of the day. Spot revaluation rates are mainly obtained from brokers.

Independent price verifications are done from different entities mainly from money brokers. For forex spot rates, the Treasury Middle Office contacts a minimum of three brokers and their averages are used. For cross currency transactions, Bloomberg rates are used twice a day. Treasury Bills and Treasury Bonds rates are obtained from Public Debt Department published information and a random sanity check is performed against broker rates.

MARKET RISK

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. It is managed under the market risk policies and processes to obtain the best balances of risk and return whilst meeting customer requirements.

The market risk subject to the capital charge requirements are:

- The Risk pertaining to Interest rate related instruments in the trading portfolios
- The Risk pertaining to the equities in the trading portfolios
- The Risk pertaining to the foreign exchange position.

The Bank follows the 'Standardised Measurement Method' for computing the capital charge for exposures capture under market risk.

Below table shows the RWA for market risk under Standardised Approach method:

Market Risk under Standardised Measurement Method

As at 31st December 2017	RWA Amount Rs. 000
(a) RWA for Interest Rate Risk	48,940
General Interest Rate Risk	48,940
(i) Net Long or Short Position	48,940
(ii) Horizontal Disallowance	-
(iii) Vertical Disallowance	-
(iv) Options	-
Specific Interest Rate Risk	-
(b) RWA for Equity	2,724
(i) General Equity Risk	1,362
(ii) Specific Equity Risk	1,362
(c) RWA for Foreign Exchange & Gold	5,580
Risk Weighted Amount for Market Risk ((a+b+c) * The Reciprocal of Total Capital Ratio)	508,835

Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustments/movements within a specified period. The Bank's lending, funding and investment activities give rise to interest rate risk. The Bank prepares Sensitivity of Assets & Liabilities (SAL) gap analysis report by contractual and behavioural maturities as broken by tenors up to 1 month, 1 - 3 months, 3 - 6 months, 6 - 12 months, 1 - 3 years, 3 - 5 years and over 5 years that covers both on and off-balance sheet interest rate sensitive assets and liabilities by currency-wise (according to CBSL guidelines) on a monthly basis.

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Further explanation on the Bank approach to manage interest rate risk can be found in page 193 of Annual Report 2017- Interest Rate Sensitivity Analysis of the Assets & Liabilities

Equity Position Risk

Equity Price Risk is the risk to earnings or capital that results from adverse changes in the value of equity related portfolios of a financial institution.

Investment in equities is always classified under 'Trading' portfolio and is marked to market on a monthly basis. The net MTM adjustment (decline or appreciation of market value) of the portfolio is to be taken to the Profit and Loss account (reflected in earnings).

The below table depicts the equity type, cost, carrying value, fair value, realised/unrealised gains/(losses) of equity investments as at 31st December 2017.

Investee	Type	Purchased Price Rs.	No. of Shares Purchased	Cost Rs.	Carrying Value Rs.	Share Price Rs.	Realised Gains/ (Losses) Rs.	Unrealised Gains/ (Losses) Rs.
Vallibel One PLC	Held for Trading	25.00	684,035	17,100,875	12,107,420	17.70	-	(4,993,455)

Amount included in the capital adequacy calculation is as follows:

	No. of Shares	Share Price Rs.	Total Market Value of Shares Rs.	Capital Charge Rs.
Specific Equity Risk (11.25% charge)	684,035	17.70	12,107,420	1,362,085
General Equity Risk (11.25% charge)	684,035	17.70	12,107,420	1,362,085
Total Capital Charge				2,724,170

Foreign Exchange Risk

The Bank faces foreign exchange risk due to impact on foreign currency inflow and outflow on daily basis. However, currency risk that can be carried through overnight is contained by the regulator through Net Open Position (NOP) limit. With the developments in emerging markets and increasing demand for US Dollar from importers, the Sri Lankan Rupee is further set to depreciate in the long term. The Bank generally manages this risk by using a derivative type called 'currency swaps'.

LIQUIDITY RISK

The ability for a Bank to meet its short term liability requirements primarily to honour the premature upliftments and general maturities is defined as the liquidity risk. The Statutory Liquidity Asset Ratio & Liquidity Coverage Ratio are the primary ratio gauges as imposed by the regulator in to the liquidity position of the Bank while other ratios such as the liquid assets to short term liabilities, commitments to liquid assets can be used to monitor the same.

Trends in Key Indicators	2017	2016
Net Loans to Total Assets	71.29%	66.82%
Loans to Customer Deposits	95.42%	98.43%
Liquid Assets to Short-term Liabilities	6.56	2.03
Commitments to Liquid Assets	51.83%	37.65%

Another main measurement tool available for monitoring the liquidity of the Bank is the maturity gaps of assets and liabilities (MAL) which is prepared based on contractual and behavioural maturities bucket which are defined for up to 1 month, 1 - 3 months, 3 - 6 months, 6 - 12 months, 1 - 3 years, 3 - 5 years and over 5 years which covers both on and off-balance sheet assets and liabilities.

Further explanation on the Bank approach to manage liquidity risk can be found pages 189 to 191 of Annual Report 2017- Contractual maturities of on & off balance sheet assets & liabilities.

Liquidity Risk Mitigation Techniques

The Bank has a contingency funding plan inter alia the roles and responsibilities of senior management in a crisis situation, triggers for invoking the plan, communications and organisation, an analysis of a realistic range of market-wide and specific liquidity stress tests to the extent to which each stress test can be mitigated by managing the balance sheet. This is detailed in Banks Treasury Procedure Manual. In addition, the Bank has entered in to a reciprocal contingency funding arrangement with another licensed commercial bank for an amount of Rs.1.5 Billion.

Assessing the structure of the Balance Sheet

The main measurement tool the Bank uses to assess the structure of the balance sheet is Ratio Analysis. Comprehensive list of ratios according to the focus areas are as follows,

Growth Ratios:
Average Customer Assets growth, Average Liabilities growth, Average Low Cost Customer Deposit Growth

Other:
Loans to Deposit Ratio, Earning Assets/ Total Assets, NPA Ratio - Gross and Net NPA Ratio, Net Loans to Total Assets etc.

Concentration limits, Sources of Funding & Liquidity Exposures

The Bank on a monthly basis uses top 20 deposit holders concentration which is discussed at ALCO.

In order to manage the concentration risk the Bank has implemented various limits and restrictions on its funding portfolio. One such limitation is on the borrowing from the money market and currency wise (mainly USD & Sri Lankan Rupee) Board approved limits are in place and are reviewed in minimum annually and ensure the concentration risk arising from the same is mitigated according to the risk appetite of the Bank.

By analysing the past trends, it has been deduced that the Bank relies mainly on the time deposits in order to fund the business growth as evident in the below table where the product wise concentration of the liability portfolio is listed.

Product wise concentration of the Bank's Deposit Portfolio as at 31st December 2017;

Deposit Product	Mix
Demand Deposits	4%
Savings Deposits	13%
Time Deposits	78%
Certificate of Deposits	4%
Margin Deposits	1%
	100%

In addition as a concentration risk gauge, that the Top 20 deposit holders of the Bank has a share of only 15.06% out of the total deposit base of the Bank.

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.

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Commencing from 1st April 2015, the Bank has to maintain LCR Ratio for all currencies and for rupee as stipulated in the direction. The ratio which initially starts from 60% minimum requirement will be increased up to 100% on a staggered basis by 1st January 2019.

Liquid assets are distributed across the Bank to support regulatory and internal requirements and are consistent with the distribution of liquidity needs by currency. The composition of the high quality liquid asset portfolio has remained relatively stable over the reporting period and the previous period. The Bank has to maintain 80% as LCR for year 2017 for both Rupee and all currencies.

LCR Disclosure Template

The Bank monitors its LCR position on a daily basis, ensuring a sufficient buffer is maintained over the minimum regulatory requirement and the Bank's risk appetite. The Bank holds a diverse mix of High Quality Liquid Assets (HQLA), consisting primarily of cash, excess balances held with Central Bank above Statutory Deposit, Government of Sri Lanka securities (Level 1 Liquid Assets). In addition, the Bank maintains level 2 Liquid Assets such as gilt edge investments.

As at 31st December	2017		2016	
	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)	15,835,839	15,213,466	18,811,846	17,855,477
Total Adjusted Level 1 Assets	14,995,400	14,995,400	17,919,670	17,919,670
Level 1 Assets	14,793,246	14,793,246	17,323,023	17,323,023
Total Adjusted Level 2A Assets	-	-	246,758	209,744
Level 2A Assets	-	-	246,758	209,744
Total Adjusted Level 2B Assets	840,440	420,220	645,418	322,709
Level 2B Assets	840,440	420,220	645,418	322,709
Total Cash Outflows	130,405,067	20,097,489	93,124,203	13,552,886
Deposits	97,713,844	8,680,160	72,018,389	7,201,839
Unsecured Wholesale Funding	7,158,664	4,360,842	8,957,555	6,227,114
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	18,676,454	200,382	12,148,260	123,933
Additional Requirements	6,856,105	6,856,105	-	-
Total Cash Inflows	14,802,163	12,310,242	9,133,223	5,796,810
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	7,929,910	5,437,988	9,133,223	5,796,810
Operational Deposits	-	-	-	-
Other Cash Inflows	6,872,253	6,872,253	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total net Cash Outflows over the Next 30 Calendar Days) *100		195.36%		230.21%

OPERATIONAL RISK

Operational risk is the potential for loss arising from the failure of people, processes or technology or the impact of external events. Operational risk exposures are managed through a set of processes that drive risk identification, assessment, control and monitoring. The senior management team under the guidance of the Board is responsible for overseeing potential risk across the Bank.

The Bank computes capital charges for operational risk based on the Basic Indicator Approach (BIA). When compared to other approaches, BIA is not an advanced approach. Therefore, the Bank is in the process of collecting information to move to 'The Standardised Approach (TSA)' with the prior approval of CBSL.

Capital Requirement under BIA is given below;

Operational Risk under Basic Indicator Approach

As at 31st December 2017 Business Lines	Capital Charge Factor	Fixed Factor	Gross Income 1st Year Rs. 000	Gross Income 2nd Year Rs. 000	Gross Income 3rd Year Rs. 000
The Basic Indicator Approach	15%	-	6,678,599	6,342,127	5,634,325
The Standardised Approach					
Corporate Finance	18%	-	-	-	-
Trading and Sales	18%	-	-	-	-
Payment and Settlement	18%	-	-	-	-
Agency Services	15%	-	-	-	-
Asset Management	12%	-	-	-	-
Retail Brokerage	12%	-	-	-	-
Retail Banking	12%	-	-	-	-
Commercial Banking	15%	-	-	-	-
The Alternative Standardised Approach					
Corporate Finance	18%	-	-	-	-
Trading and Sales	18%	-	-	-	-
Payment and Settlement	18%	-	-	-	-
Agency Services	15%	-	-	-	-
Asset Management	12%	-	-	-	-
Retail Brokerage	12%	-	-	-	-
Retail Banking	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-
Capital Charges for Operational Risk					
The Basic Indicator Approach					932,753
Risk Weighted Amount for Operational Risk					
The Basic Indicator Approach					8,291,134

Basel III Pillar 3 Disclosures

Operational Risk Mitigation Techniques

The Bank's senior management team under delegation from the Board is responsible for overseeing operational risks across the Bank. The Bank has a process in place to record operational risk related loss incidents. Reporting, investigating and required remedial actions on the incidents are recommended by Manager - Operational Risk and Control Self Assessments along with Key risk Indicators have been developed for all critical business units to trigger periodic control self assessments as required and to capture results to monitor exceptions. The Bank has established mechanisms in controlling, preventing, and mitigating operational risks through an effective internal control system with strong participation of each business unit heads. Each business unit must enforce operational controls vigorously, ensuring compliance with regulations including anti-money laundering measures. Implementing segregation of duties and procedures for verification and reconciliation, define approval authorities as well as establishing limits commensurate with the scale of the business, the business type and level of staff, are also been looked after by them. The reliability of the information technology systems and the security measures related thereto is also of paramount importance.

The Bank has implemented Business Continuity Management to enhance the resilience and the capability of responding to unexpected interruptions. The Bank has Business Continuity Management Policy and Business Continuity Plans, which are regularly reviewed and updated in accordance with potential threats and being tested on a regular basis. Disaster Management Team (DMT) which comprise with members of all critical business operations is overlooking to ensure the readiness of the Bank's Disaster Recovery site and the related testing.

As a part of the risk management approach the Bank uses insurance as a 'risk transferring strategy' for low probability and high severity impact events that are beyond the control of the Bank such as damage to physical assets by natural disasters, fire etc. The Bank has also transferred such Risk by obtaining necessary insurance policies from leading insurance providers covering burglary, transits, forged cheques and securities, counterfeit currencies, infidelity and negligence of employees etc. The adequacy of the insurance covers are reviewed and monitored by relevant departments in the Bank on an ongoing basis.

Major operational, system or human failures and financial losses incurred by the Bank due to such failures during the reporting period

During the reporting period there were no significant losses reported due to failures or inadequacies in Internal Processes, People, and System or from External events. However, during the reporting period the Banks primary dealership (primary market access) has been temporary barred for 6 months until 14th February 2018, without any major impact to the Bank's core operations. This suspension has been subsequently extended for another 06 months with effect from 14th February 2018.

Further details on the Bank's approach to manage operational risk can be found on page 195 of the Annual Report 2017 - Risk Management Report.

Details of Outsourced Activities

The Bank outsources certain service activities related to the financial services and core banking activities. With the outsourcing, the Bank would be in a better position to meet the challenges of rapid changes and innovations in technology, increasing specialisation in the market, cost control of operations by minimising costs of directly handling such activities, and effectively compete in the market. The outsourcing activities are governed by the laws applicable to the Banking industry and directions issued by the regulator. Further, the Bank has a well defined policy aligned with regulatory guidelines and procedures relating to outsourcing of business activities of the Bank ensuring that all significant risks arising from outsourcing arrangements of the Bank are identified and effectively managed on a continuous basis. The Outsourcing Policy is reviewed on an annual basis with the approval of the Board of Directors.

An Outsourced Activities Monitoring Unit has been established to closely monitor all the outsourcing arrangements in the Bank.

List of Outsourced Activities outsourced are as follows;

Deliverables/ Services	Basis of the Payment
Cards Personalisation	Per Card
Credit Card Mandate Scanning	Per Document
World Master Card Personalisation	Per Card
Statement printing and dispatching	Per Statement
Debt collection, Skip tracing & Asset verification	Based on the output volumes
Mandates relating to accounts opening to be scanned	Per Document
All cash sorting and transport	Transport - Per agreed rate according to the distance & Counting - Per bundle
Cheque book printing	Per Cheque leaf
Archival of Documents	Per Carton
Computer Hardware and equipment	Monthly rental
Maintenance of Bank Disaster Recovery Site	Monthly Rental
Hiring IT Operators	Monthly Fee
Processing of Salaries	Monthly Fee
Promotional Activities	Per Activity
Recruitment and Processing payments for outsourced staff	Percentage on Total Salary Cost
Initial screening of applications for Credit Card and Personal Loans	Per Application
Card Management System	Per Card

Details of the due diligence test of third party service providers

Due diligence tests of outsourced vendors are carried out by respective Risk Owners prior to executing new agreements and renewal of existing agreements. Assistance of Information Security Officer and Information Systems Audit Unit is obtained when conducting due diligence tests of outsourced parties which provide IT services.

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

IRRBB arises due to floating and fixed rate sensitive assets and liabilities in the balance sheet of the Bank. It is different to credit risk and relates to the impact interest rates change may have on the value of the loans and deposits and by extension, the overall earnings of the Bank. IRRBB arises due to the differences in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL), which will have an impact on the future income and expenses produced by relevant gap positions and an impact on Bank's Net Interest Income compared to the level of Net Interest Income expected from current interest rates level. Re-pricing gap analysis would determine the appropriate strategies to manage the assets- liability rate mismatch.

Further explanation on the Bank approach to manage interest rate risk can be found in page 193 of Annual Report 2017- Interest Rate Sensitivity analysis of the Assets & Liabilities.

Quarterly Statistics

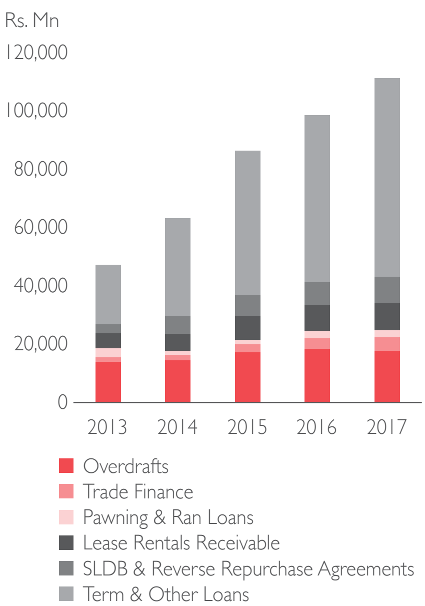
For the Quarter ended	2017				2016			
	31st December Rs. 000	30th September Rs. 000	30th June Rs. 000	31st March Rs. 000	31st December Rs. 000	30th September Rs. 000	30th June Rs. 000	31st March Rs. 000
Extract of Statement of Financial Position								
Total Assets	138,501,685	127,049,094	128,100,380	129,121,056	129,451,079	126,979,486	120,770,183	113,335,292
Loans and Receivables to Other Customers	109,139,936	99,780,320	99,789,573	97,745,634	95,833,759	92,524,513	89,413,991	86,977,778
Due to Other Customers	107,193,030	95,634,252	98,090,605	93,752,648	91,456,410	88,434,568	83,646,382	83,792,648
Debentures	7,147,052	7,205,159	7,239,756	7,109,535	7,950,171	7,983,457	8,024,477	7,902,944
Shareholders' Funds	10,669,887	10,396,367	9,554,232	9,290,785	6,872,145	6,536,782	6,234,666	5,929,583
Extract of Statement of Comprehensive Income								
Net Interest Income	1,035,206	1,289,383	1,172,750	1,208,934	1,240,858	1,054,712	1,211,458	1,126,350
Other Income	521,233	476,054	489,301	485,738	435,771	446,376	432,145	394,455
Total Operating Income	1,556,439	1,765,437	1,662,051	1,694,672	1,676,629	1,501,088	1,643,603	1,520,805
Impairment for Loans & Other Losses	74,071	(225,899)	(232,405)	(110,153)	(248,653)	(22,073)	(148,768)	(108,614)
Non-Interest Expenses	(1,138,613)	(1,108,243)	(990,301)	(1,071,600)	(1,027,228)	(1,021,731)	(1,042,422)	(927,700)
Income Tax Expense	(19,482)	(130,012)	(175,894)	(159,566)	(54,817)	(155,168)	(152,586)	(180,660)
Profit for the Quarter	472,415	301,283	263,451	353,353	345,931	302,116	299,827	303,831
Profitability (YTD) Ratios								
Net Interest Margin (%)	3.61	3.81	3.73	3.79	3.87	3.86	4.11	4.30
Earnings Per Share (Rs.)	3.31	2.91	2.96	3.41	4.01	4.09	4.10	4.13
Return on Equity (%)	14.86	13.55	14.51	18.95	19.97	19.72	20.25	20.83
Return on Assets (%)	1.07	0.95	0.97	1.11	1.05	1.03	1.06	1.10
Capital Adequacy Ratios*								
Common Equity Tier I Capital Ratio (%)	11.38	10.56	N/A	N/A	N/A	N/A	N/A	N/A
Total Tier I Capital Ratio (%)	11.38	10.56	10.79	11.07	8.37	7.72	7.88	7.14
Total Capital Ratio (%)	13.53	13.10	13.30	13.83	11.40	11.06	11.53	11.10
Asset Quality Ratios								
Gross NPA (%)	4.36	6.03	6.26	5.63	4.74	4.65	4.39	4.65
Net NPA (%)	3.05	3.80	4.21	3.78	2.95	2.93	2.70	3.03
Liquidity Ratios								
Statutory Liquid Assets Ratio (SLAR)								
Domestic Banking Unit (%)	23.25	22.65	22.59	29.70	28.03	26.43	26.59	25.83
Foreign Currency Banking Unit (%)	27.04	21.09	20.15	37.96	38.82	45.30	49.29	62.32
Liquidity Coverage Ratio (LCR)								
Rupee (%)	208.84	135.67	150.01	146.60	163.62	118.91	143.93	104.84
All Currency (%)	195.36	133.04	213.28	211.35	230.21	175.63	174.97	147.11

*The Central Bank of Sri Lanka has issued Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's) on 29th December 2016. Accordingly from July 2017 onwards, the Bank has reported Capital Adequacy Ratios as per Basel III framework and for the previous periods, Capital Ratios have been reported as per Basel II framework.

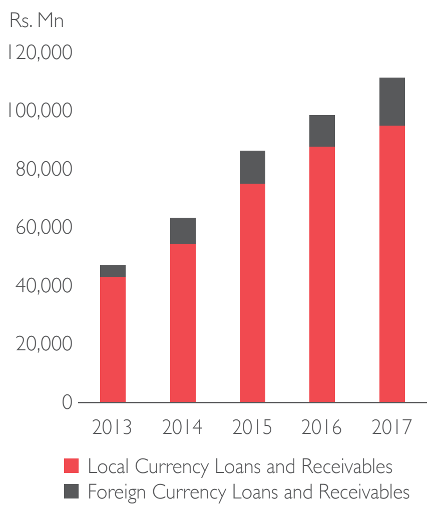
Analysis of Loans and Receivables to Other Customers

	2017 Rs. 000	2016 Rs. 000	2015 Rs. 000	2014 Rs. 000	2013 Rs. 000
By Product					
Overdrafts	17,703,444	18,446,880	17,101,701	14,418,732	13,927,292
Trade Finance	4,546,528	3,462,955	2,911,459	1,991,724	1,588,560
Credit Cards	4,742,699	2,885,197	1,466,930	625,292	213,001
Pawning & Ran Loans	2,437,588	2,646,972	1,381,924	1,308,199	2,997,534
Staff Loans	821,813	809,692	540,002	362,297	347,212
Term Loans	58,887,868	48,473,625	41,314,076	28,391,517	15,213,900
Lease Rentals Receivable	9,449,637	8,792,506	8,320,679	5,767,026	5,149,445
Margin Trading	1,467,071	2,447,732	2,724,766	2,110,593	1,830,969
Reverse Repurchase Agreements	186,290	1,683,561	984,360	1,000,176	1,182,698
Sri Lanka Development Bonds	8,865,418	6,207,879	6,245,116	5,195,616	1,984,459
Debentures	1,592,696	1,793,326	2,262,835	1,176,040	-
Others	650,448	859,461	1,068,804	945,509	2,693,632
Total	111,351,500	98,509,786	86,322,652	63,292,721	47,128,702
By Currency					
Sri Lankan Rupee	95,016,185	87,761,271	75,128,454	54,267,574	43,159,703
United States Dollar	12,290,379	8,935,857	9,676,145	8,906,719	3,882,484
Others	4,044,936	1,812,658	1,518,053	118,428	86,515
Total	111,351,500	98,509,786	86,322,652	63,292,721	47,128,702

BY PRODUCT



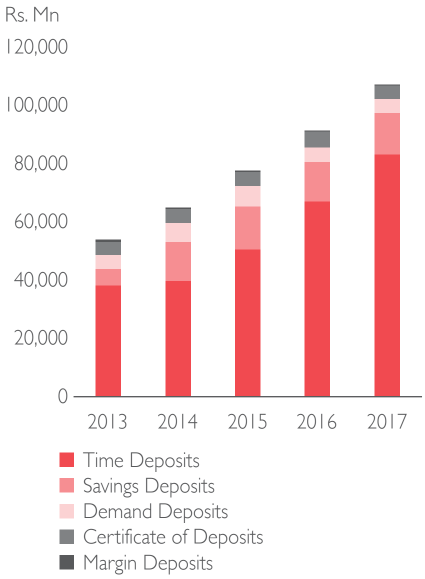
BY CURRENCY



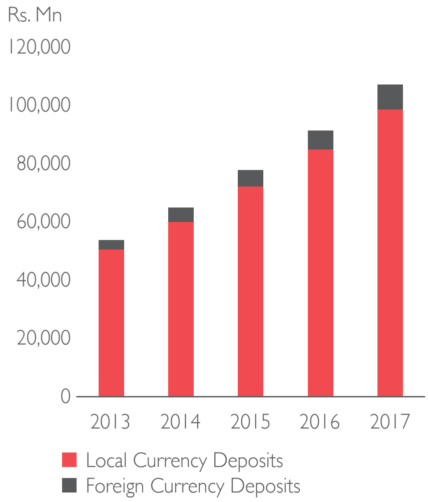
Analysis of Due to Other Customers

	2017 Rs. 000	2016 Rs. 000	2015 Rs. 000	2014 Rs. 000	2013 Rs. 000
By Product					
Demand Deposits	4,815,485	5,141,991	6,881,532	6,456,819	4,773,215
Savings Deposits	14,159,616	13,452,803	14,880,794	13,360,712	5,629,927
Time Deposits	83,200,483	67,047,837	50,480,498	39,743,568	38,188,235
Certificate of Deposits	4,603,819	5,488,402	4,887,367	4,820,760	4,558,118
Margin Deposits	413,627	325,377	566,864	513,366	686,402
Total	107,193,030	91,456,410	77,697,055	64,895,225	53,835,897
By Currency					
Sri Lankan Rupee	98,574,959	84,851,489	72,192,571	59,943,968	50,475,100
United States Dollar	6,730,046	5,191,710	4,528,541	4,069,126	2,317,692
Others	1,888,025	1,413,211	975,943	882,131	1,043,105
Total	107,193,030	91,456,410	77,697,055	64,895,225	53,835,897

BY PRODUCT



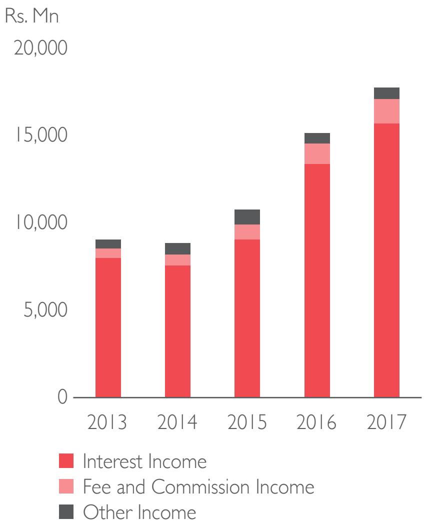
BY CURRENCY



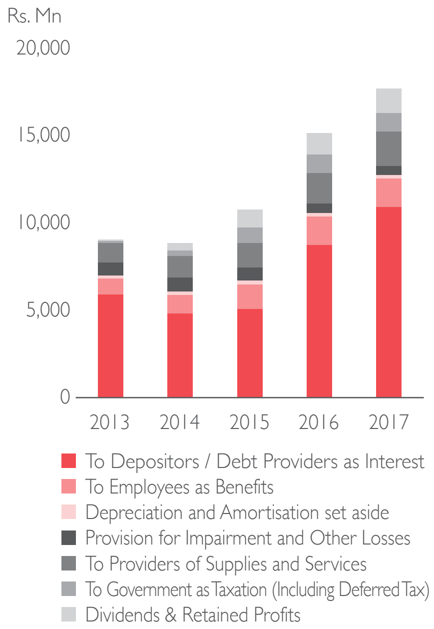
Sources & Distribution of Income

	2017 Rs. 000	2016 Rs. 000	2015 Rs. 000	2014 Rs. 000	2013 Rs. 000
Sources of Income					
Interest Income	15,616,014	13,366,543	9,038,971	7,541,725	7,976,952
Fee and Commission Income	1,408,276	1,175,173	863,025	643,869	548,298
Trading and Other Operating Income	660,382	603,026	857,142	658,362	528,786
Total	17,684,672	15,144,742	10,759,138	8,843,956	9,054,036
Distribution of Income					
To Depositors and Debt Providers as Interest	10,909,740	8,733,164	5,076,382	4,801,741	5,881,653
To Employees as Benefits	1,624,035	1,613,604	1,389,142	1,080,881	942,167
Depreciation and Amortisation set aside	213,491	225,283	222,135	178,843	168,061
Provision for Impairment and Other Losses	494,386	528,108	750,525	814,854	743,261
To Providers of Suppliers and Services	1,977,041	1,753,738	1,416,953	1,213,128	1,090,454
To Government as Taxation	1,075,477	1,039,140	863,483	339,298	114,602
Income Tax (Including Deferred Tax)	484,954	543,231	491,102	118,998	8,907
VAT and NBT on Financial Services	576,478	483,265	361,871	216,075	104,535
Crop Insurance levy	14,045	12,644	10,510	4,225	1,160
To Shareholders as Dividends & Retained Profits	1,390,502	1,251,705	1,040,518	415,211	113,838
Total	17,684,672	15,144,742	10,759,138	8,843,956	9,054,036

SOURCES OF INCOME



DISTRIBUTION OF INCOME

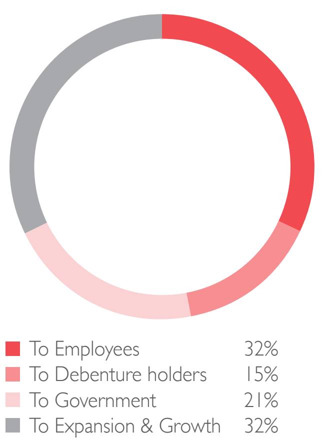


FINANCIAL AND INVESTOR INFORMATION

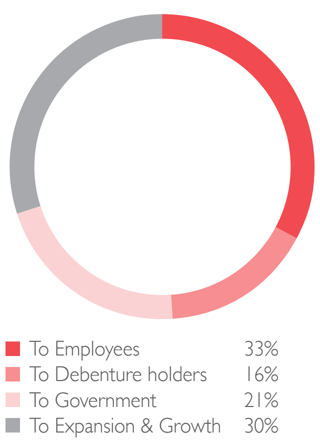
Value Added Statement

	2017		2016	
	Rs. 000	%	Rs. 000	%
Value Added				
Income from Banking Services	17,684,672		15,144,742	
Cost of Funds and Services	(12,147,206)		(9,690,892)	
Value Added by Banking Services	5,537,466		5,453,850	
Impairment for Loans and Other Losses	(494,386)		(528,108)	
Total	5,043,080		4,925,742	
Distribution of Value Added				
To Employees				
Salaries and Other Benefits	1,624,035	32%	1,613,604	33%
To Debenture holders				
Interest to Debenture holders	739,575	15%	796,010	16%
To Government				
Income Tax (Including Deferred Tax)	484,954		543,231	
VAT and NBT on Financial Services	576,478		483,265	
Crop Insurance levy	14,045		12,644	
	1,075,477	21%	1,039,140	21%
To Expansion and Growth				
Retained Profit	1,390,502		1,251,705	
Depreciation and Amortisation	213,491		225,283	
	1,603,993	32%	1,476,988	30%
Total	5,043,080	100%	4,925,742	100%

DISTRIBUTION OF VALUE ADDED 2017



DISTRIBUTION OF VALUE ADDED 2016



Decade at a Glance

Rs. Mn For the Year ended 31st December	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating Results										
Income	3,241.16	3,862.06	3,484.41	5,278.21	7,766.22	9,054.03	8,843.95	10,759.14	15,144.74	17,684.67
Interest Income	2,864.60	3,159.66	3,027.66	4,582.66	6,766.83	7,976.95	7,541.72	9,038.97	13,366.54	15,616.01
Interest Expense	1,798.44	1,878.01	1,402.26	2,268.62	4,360.68	5,881.65	4,801.74	5,076.38	8,733.16	10,909.74
Net Interest Income	1,066.16	1,281.65	1,625.40	2,314.04	2,406.15	2,095.30	2,739.98	3,962.59	4,633.38	4,706.27
Other Income	376.55	702.40	456.75	695.55	999.39	1,077.08	1,302.23	1,720.17	1,778.20	2,068.66
Operating Expenses & Provisions	1,020.88	1,318.90	1,388.22	1,855.62	2,260.13	3,049.63	3,508.00	4,151.14	4,616.65	4,899.48
Profit before Income Tax	421.83	665.15	693.93	1,153.97	1,145.41	122.75	534.21	1,531.62	1,794.93	1,875.45
Income tax	198.20	277.33	332.14	342.20	285.36	8.91	119.00	491.10	543.23	484.95
Profit for the Year	223.63	387.82	361.79	811.77	860.05	113.84	415.21	1,040.52	1,251.70	1,390.50
As at 31st December										
Assets										
Cash and Cash Equivalents	843.93	588.33	1,110.07	2,430.15	1,203.05	1,203.74	1,334.41	1,393.27	1,703.45	1,665.04
Balances with Central Bank of Sri Lanka	704.59	807.21	1,060.32	2,250.43	3,516.87	2,799.58	3,247.64	4,166.74	6,218.56	6,884.02
Placements with Banks	59.18	96.81	-	-	500.13	104.62	-	-	75.10	237.37
Derivative Financial Instruments	-	-	1.14	1.51	0.05	2.76	5.21	1.54	26.28	16.09
Financial Assets - Held for Trading	2,964.53	3,829.34	3,432.63	190.98	12.38	9,170.42	1,414.70	14.71	629.74	4,549.19
Loans and Receivables to Banks	-	-	-	-	-	12.00	7,597.25	944.84	754.13	653.09
Loans and Receivables to Customers	12,776.96	12,693.80	22,792.38	34,619.64	43,213.37	44,728.69	60,346.64	84,185.52	95,833.76	109,139.94
Financial Investments - Available for Sale	2.14	2.14	2.14	2.14	6.16	6.16	6.16	6.16	6.16	6.16
Financial Investments - Held to Maturity	551.93	2,270.81	1,210.12	5,260.63	4,896.05	2,849.48	2,563.36	14,667.28	21,753.43	12,287.19
Property, Plant and Equipment	587.17	595.56	614.65	1,026.34	1,224.24	1,204.30	1,458.55	1,470.35	1,489.39	1,989.97
Intangible Assets	31.72	36.13	48.67	52.15	73.58	65.80	50.61	329.13	315.70	284.39
Other Assets	462.19	638.70	969.62	1,164.92	1,428.41	2,770.90	1,580.74	603.43	645.38	789.24
Total Assets	18,984.34	21,558.83	31,241.74	46,998.89	56,074.29	64,918.45	79,605.27	107,782.97	129,451.08	138,501.69
Liabilities										
Borrowings & Due to Banks	1,399.60	1,326.78	4,470.46	4,916.09	1,121.65	4,743.51	4,294.47	14,612.56	21,001.34	10,963.69
Derivative Financial Instruments	-	-	3.23	1.26	0.63	24.63	-	2.14	-	7.37
Due to Other Customers	14,951.08	16,914.26	21,951.82	36,353.39	47,911.09	53,835.90	64,895.23	77,697.05	91,456.41	107,193.03
Current Tax Liabilities	121.57	245.56	262.37	227.90	151.31	-	-	114.94	411.03	550.34
Deferred Tax Liabilities	55.61	10.53	83.49	121.69	177.13	150.79	281.98	391.74	445.77	630.73
Other Liabilities and Provisions	753.83	1,032.04	1,552.03	1,697.87	1,694.06	1,330.16	1,564.01	1,276.69	1,314.21	1,339.59
Debentures	110.81	50.00	50.00	-	785.83	784.69	3,834.95	7,914.58	7,950.17	7,147.05
Total Liabilities	17,392.50	19,579.17	28,373.40	43,318.20	51,841.70	60,869.68	74,870.64	102,009.70	122,578.93	127,831.80
Shareholders' Funds										
Stated Capital	1,106.40	1,106.40	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	3,614.25
Reserves	485.44	873.26	1,319.37	2,131.72	2,683.62	2,499.80	3,185.66	4,224.30	5,323.18	7,055.64
Total Shareholders' Funds	1,591.84	1,979.66	2,868.34	3,680.69	4,232.59	4,048.77	4,734.63	5,773.27	6,872.15	10,669.89
Total Liabilities and Shareholders' Funds	18,984.34	21,558.83	31,241.74	46,998.89	56,074.29	64,918.45	79,605.27	107,782.97	129,451.08	138,501.69
Commitments and Contingencies	2,772.80	3,151.96	10,887.66	15,331.43	13,743.92	26,124.67	22,200.09	26,223.21	25,458.17	32,426.39
Share Information										
Earnings per Share (Rs.)	1.01	1.61	1.31	2.75	2.92	0.39	1.41	3.53	4.01	3.31
Net Asset Value per Share (Rs.)*	3.60	4.47	6.48	8.32	9.56	9.15	10.70	13.05	15.53	24.11
Other Information										
No. of Employees	507	511	670	1,096	1,153	1,169	1,302	1,420	1,458	1,472
No. of Branches	32	35	41	64	73	77	78	79	82	85

*Net Assets Value per Share has been calculated, for all periods, based on the number of shares in issue as at 31st December 2017.

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	117
7.6 (ii)	Principal activities of the entity during the year and any changes therein	Notes to the Financial Statements (Note 1 - Corporate Information)	134
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Item 02 of the Investor Relations	245
7.6 (iv)	Public Holding information and Market capitalisation		
	• The Public Holding percentage and Number of Shares Held by Public	Item 02 of the Investor Relations	246
	• Market capitalisation	Item 10 of the Investor Relations	249
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	117
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Item 05 of the Investor Relations	248
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Item 06 of the Investor Relations	248
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 25)	160
7.6 (ix)	Number of shares representing the Entity's Stated Capital	Notes to the Financial Statements (Note 35)	170
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	246
7.6 (xi)	Ratios and Market Price information		
	• Equity Ratios	Item 04 of the Investor Relations	247
	• Market Price	Item 04 of the Investor Relations	247
	• Debenture Information	Item 04 of the Investor Relations	248
	• Credit Rating	Item 04 of the Investor Relations and Corporate Information	248
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 25)	160
7.6 (xiii)	Details of funds raised through public issues, Right Issues, and private Placements during the year.	Item 9 of the Investor Relations and	249
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	248
9.3.2.(b)	Disclosure of recurrent related party transactions	Item No. 8 of Investor Relations	249
9.3.2.(c)	Report of the Board Related Party Transactions Review Committee containing specified disclosures	Board Related Party Transactions Review Committee	116
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	117

1. Stock Exchange Listing

The Issued Ordinary Shares and Debentures of Pan Asia Banking Corporation PLC are listed in the Colombo Stock Exchange.

Instrument	Type	Security Code
Shares	Ordinary	PABC N0000
Debentures		
2014/2019 - 9.75% p.a.	Fixed Rate	PABC D0300
2014/2019 - 9.5233% p.a.	Fixed Rate	PABC D0301
2015/2018 - 9.50% p.a.	Fixed Rate	PABC D0353
2015/2018 - 6 Month Average Net T-Bill Rate + 2.50%	Floating Rate	PABC D0354
2015/2019 - 10.00% p.a.	Fixed Rate	PABC D0355
2015/2019 - 6 Month Average Net T-Bill Rate + 3.00%	Floating Rate	PABC D0356

The Audited Statement of Financial Position as at 31st December, 2017 and Audited Statement of Comprehensive Income for the year ended 31st December 2017 of the Bank will be submitted to the Colombo Stock Exchange within 03 months from the Statement of Financial Position date.

2. Names, Number and Percentage of Shares held by Twenty Largest Shareholders

As at 31st December 2017

	Name of Shareholder	Number of Shares	Holding as a%
1.	K. D. D. Perera	132,724,230	29.99
2.	Bansei Securities Co., Ltd.	66,384,246	15.00
3.	Seylan Bank PLC/Lanka Century Investments PLC	43,930,641	9.93
4.	W. K. H. Wegapitiya	27,060,000	6.11
5.	D. C. C. Joseph	25,249,658	5.70
6.	K. D. H. Perera	23,305,998	5.26
7.	P. J. Tay	21,917,994	4.95
8.	K. D. A. Perera	19,200,000	4.34
9.	Sri Lanka Samurdhi Authority	11,114,376	2.51
10.	Sri Lanka Savings Bank Limited	10,298,499	2.33
11.	R. E. U. De Silva	6,799,582	1.54
12.	A. R. Molligoda	3,737,319	0.84
13.	Capital Development & Investment Company PLC A/c No.2	2,123,343	0.48
14.	Favourite Garments (Pvt) Ltd	1,850,000	0.42
15.	M. F. Hashim	1,772,202	0.40
16.	Bank of Ceylon A/c Ceybank Unit Trust	1,466,940	0.33
17.	H. Beruwalage	1,311,648	0.30
18.	A. S. Palihena	1,000,000	0.23
19.	A. P. Somasiri	1,000,000	0.23
20.	Rosewood (Pvt) Ltd – Account No.01	940,130	0.21
	Sub Total	**403,186,806**	**91.10**
	Balance held by 4,200 Shareholders	39,374,823	8.90
	Total Number of Shares	**442,561,629**	**100.00**

Investor Relations

As at 31st December 2016

	Name of Shareholder	Number of Shares	Holding as a%
1.	K. D. D. Perera	88,482,820	29.99
2.	Bansei Securities Co., Ltd.	44,256,164	15.00
3.	Lanka Century Investments PLC	29,287,094	9.93
4.	D. C. C. Joseph	17,252,332	5.85
5.	K. D. H. Perera	15,537,332	5.27
6.	P. J. Tay	14,611,996	4.95
7.	K. D. A. Perera	12,800,000	4.34
8.	Sri Lanka Samurdhi Authority	11,114,376	3.77
9.	Seylan Bank PLC/W. D. N. H. Perera	8,213,641	2.78
10.	Sri Lanka Savings Bank Ltd	6,865,666	2.33
11.	N P Capital Ltd	6,860,603	2.33
12.	A. R. Molligoda	2,491,546	0.84
13.	Favourite Garments (Pvt) Ltd	1,850,000	0.63
14.	M. F. Hashim	1,772,202	0.60
15.	Deshabandu D. M. I. Dissanayake	1,306,801	0.44
16.	R. E. U. De Silva	1,288,639	0.44
17.	Bank of Ceylon A/C Ceybank Unit Trust	961,956	0.33
18.	H. Beruwalage	874,432	0.30
19.	R. S. A. Silva	756,237	0.26
20.	A. P. Somasiri	700,000	0.24
	Sub Total	**267,283,837**	**90.62**
	Balance held by 4,030 Shareholders	27,757,249	9.38
	Total Number of Shares	**295,041,086**	**100.00**

As per Rule No. 7.6(iv) of the Listing Rules of CSE, Percentage of Public holding as at 31st December 2017 was 54.93% in the hands of 4,210 public Shareholders.(31st December 2016 – 54.49% in the hands of 4,037 Shareholders)

3. Distribution Schedule of the Number of Shareholders and Percentage of Shareholding

The total number of shareholders as at 31st December 2017 were 4,220 (31st December 2016- 4,050).

Analysis I

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	882	32,004	0.01%	4	172	0.00%	886	32,176	0.01%
101 - 1,000	1,475	744,567	0.17%	6	4,000	0.00%	1,481	748,567	0.17%
1,001 - 5,000	1,004	2,613,447	0.59%	11	34,500	0.01%	1,015	2,647,947	0.60%
5,001 - 10,000	289	2,208,749	0.50%	6	54,332	0.01%	295	2,263,081	0.51%
10,001 - 50,000	358	8,175,436	1.85%	7	169,100	0.04%	365	8,344,536	1.89%
50,001 - 100,000	87	6,268,871	1.42%	1	52,650	0.01%	88	6,321,521	1.43%
100,001 - 500,000	59	12,098,811	2.73%	2	360,000	0.08%	61	12,458,811	2.81%
500,001 - 1,000,000	11	8,793,311	1.99%	1	705,003	0.16%	12	9,498,314	2.15%
1,000,001 & above	15	311,944,436	70.48%	2	88,302,240	19.95%	17	400,246,676	90.43%
	4,180	**352,879,632**	**79.74%**	**40**	**89,681,997**	**20.26%**	**4,220**	**442,561,629**	**100.00%**

Analysis 1.1

	2017			2016		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Resident Share Holders	4,180	352,879,632	79.74%	4,007	234,415,899	79.45%
Non Resident Share Holders	40	89,681,997	20.26%	43	60,625,187	20.55%
	4,220	**442,561,629**	**100.00%**	**4,050**	**295,041,086**	**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	877	31,751	0.01%	9	425	0.00%	886	32,176	0.01%
101	-	1,000	1,441	730,553	0.17%	40	18,014	0.00%	1,481	748,567	0.17%
1,001	-	5,000	986	2,554,932	0.58%	29	93,015	0.02%	1,015	2,647,947	0.60%
5,001	-	10,000	268	2,036,858	0.46%	27	226,223	0.05%	295	2,263,081	0.51%
10,001	-	50,000	330	7,462,303	1.69%	35	882,233	0.20%	365	8,344,536	1.89%
50,001	-	100,000	70	4,990,552	1.13%	18	1,330,969	0.30%	88	6,321,521	1.43%
100,001	-	500,000	44	9,323,842	2.10%	17	3,134,969	0.71%	61	12,458,811	2.81%
500,001	-	1,000,000	8	6,177,810	1.40%	4	3,320,504	0.75%	12	9,498,314	2.15%
1,000,001	&	above	10	263,078,631	59.44%	7	137,168,045	30.99%	17	400,246,676	90.43%
			4,034	**296,387,232**	**66.98%**	**186**	**146,174,397**	**33.02%**	**4,220**	**442,561,629**	**100.00%**

Analysis 2.1

	2017			2016		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Individuals	4,034	296,387,232	66.98%	3,880	180,978,117	61.34%
Institutional	186	146,174,397	33.02%	170	114,062,969	38.66%
	4,220	**442,561,629**	**100.00%**	**4,050**	**295,041,086**	**100.00%**

4. Information on Ratios and Market Prices

4.1 Ordinary Shares

i) Ratios

Year	2017	2016
Dividend Per Share (Rs.)	-	-
Dividend Payout (%)	-	-
Net Asset Value Per Share (Rs.)	24.11	23.29

ii) Market Price

Year	2017 Rs.	2016 Rs.
Highest	20.30	27.70
Lowest	14.80	18.80
Year End	15.70	20.00

Investor Relations

4.2 Debentures

i) Interest Rates, Market Prices and Credit Ratings

	Interest Rate (%)	Interest Rate of Comparable Govt. Security (%)	Market Price (Rs.)	Yield as at the Last Traded Date (%)	Yield to Maturity as at the Last Traded Date (%)	Credit Rating	
						2017	2016
Debenture - 2014/2019							
Fixed Rate - Interest Annually	9.75	10.28	Not Traded	Not Traded	Not Traded	Fitch BB+(lka)	ICRA (SL) BBB-
Fixed Rate - Interest Semi Annually	9.5233	10.28	Not Traded	Not Traded	Not Traded	Fitch BB+(lka)	ICRA (SL) BBB-
Debenture - 2015/2018							
Fixed Rate - Interest Semi Annually	9.50	9.88	Not Traded	Not Traded	Not Traded	Fitch BBB-(lka)	Fitch BBB-(lka)
Floating Rate - Interest Semi Annually (6 Months Average Net T-Bill Rate + 2.50%)	11.63	8.53	Not Traded	Not Traded	Not Traded	Fitch BBB-(lka)	Fitch BBB-(lka)
Debenture - 2015/2019							
Fixed Rate - Interest Semi Annually	10.00	10.34	Not Traded	Not Traded	Not Traded	Fitch BBB-(lka)	Fitch BBB-(lka)
Floating Rate - Interest Semi Annually (6 Months Average Net T-Bill Rate + 3.00%)	12.13	8.53	Not Traded	Not Traded	Not Traded	Fitch BBB-(lka)	Fitch BBB-(lka)

ii) Ratios

	2017	2016
Debt to Equity (Times)	1.30	1.97
Interest Cover (Times)	2.64	2.90
Statutory Liquid Assets Ratio (%)		
Domestic Banking Unit	23.25	28.03
Foreign Currency Banking Unit	27.04	38.82
Liquidity Coverage Ratio (%)		
Rupee	208.84	163.62
All Currency	195.36	230.21

5. Material Foreseeable Risk Factors

Information pertaining to the material foreseeable risk factors that require disclosures as per the Rule 7.6(vi) of the Listing Rules of the CSE are discussed in the Future Outlook in pages 44 & 45 and Risk Management Report on pages 68 to 74.

6. Material Issues Pertaining to Employees and Industrial Relations

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be discussed as per the Rule No. 7.6 (vii) of the Listing Rules of the CSE.

7. Non Recurrent Related Party Transactions

The aggregate value of total non recurrent related party transactions entered into by the Bank during the year has not exceeded 10% of equity or 5% of total assets of the Bank.

8. Recurrent Related Party Transactions

All related party transactions entered by the Bank have been reviewed by the Board Related Party Transaction Review Committee during the year 2017. 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. Utilisation of Funds Raised via Share and Debenture Issues

9.1 Utilisation of Funds Raised via Debenture Issue (Allotted on 30th October 2014)

Objective as per Prospectus	Amount allocated as per Prospectus Rs.	Proposed date of utilisation as per Prospectus	Amount allocated from proceeds in Rs. (A)	% of total proceeds	Amounts utilised in Rs.(B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
To expand and strengthen the capital base and to minimise maturity gap and fund medium and long term advances	3,000,000,000	31st December 2015	3,000,000,000	100%	3,000,000,000	100%	Not Applicable

9.2 Utilisation of Funds Raised via Debenture Issue (Allotted on 29th September 2015)

Objective as per Prospectus	Amount allocated as per Prospectus Rs.	Proposed date of utilisation as per Prospectus	Amount allocated from proceeds in Rs. (A)	% of total proceeds	Amounts utilised in Rs.(B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
To utilise for on-going lending activities of the Bank as a part of its normal course of business	4,000,000,000	31st December 2016	4,000,000,000	100%	4,000,000,000	100%	Not Applicable

9.3 Utilisation of Funds Raised via Rights Issue (Allotted on 3rd March 2017)

Objective as per Rights Issue Document	Amount allocated as per Right Issue Document Rs.	Proposed date of utilisation as per Right Issue Document	Amount allocated from proceeds in Rs. (A)	% of total proceeds	Amounts utilised in Rs. (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
To fund gross loans and advances in the normal course of business	2,065,287,602	2nd June 2017	2,065,287,602	100%	2,065,287,602	100%	Not Applicable

10. Market Capitalisation

Market Capitalisation as at 31st December 2017 - Rs. 6,948,217,575/- (31st December 2016 - Rs.5,900,821,720/-)

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 when they occur without waiting for receipt or payment of cash or cash equivalents.

Additional Tier I Capital (AT I)
Additional Tier I or AT I consists of capital instruments that are continuous, in that there is no fixed maturity including: Preferred shares; High contingent convertible securities.

Amortisation
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

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 method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

Asset and Liabilities Committee (ALCO)
A risk-management committee in a Bank that generally comprises the senior-management levels of the Bank. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, and external events that may affect the Bank's forecast and strategic balance-sheet allocations.

Available-for-Sale Financial Assets
Available for Sale Financial Assets are those non derivative Financial Assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at Fair Value through Profit or Loss.

B

Bills for Collection
A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

Bill of Exchange
A signed, written, unconditional order one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of the third person (the Payee). The terms bills of exchange and drafts are often used interexchangebly.

C

Call Deposits or Call Money
Deposits or funds lent out which are repayable on demand.

Capital Reserve
Reserves identified for specific purposes and considered not available for distribution.

Cash Equivalents
Short Term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective Impairment Provisions
Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date.

Commercial Paper
An unsecured, short-term debt instrument issued by a company, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commitments
Credit Facilities approved but not yet utilised by the clients at the end of the Reporting Period.

Common Equity Tier I Capital
Common Equity Tier I 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 is 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 operating income.

Credit Ratings
An evaluation of a corporate ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

Credit Risk
Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Currency Swaps
The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Country Risk
The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

D

Deferred Tax
Sum set aside in the Financial Statements for taxation that may become payable in a financial year other than the Current financial year.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition
Removal of a previously recognised financial assets or financial liability from and entity's Statement of Financial Position.

Derivatives
Financial contracts whose values are derived from the values of underline assets.

Documentary Letters of Credit (L/Cs)
Written undertakings by a Bank on behalf of its customers (typically an importer), favouring a third party (e.g. an exporter) where the third party could get paid up to a stipulated amount by fulfilling specific terms and conditions. Such undertakings are established for the purpose of facilitating trade.

E

Earnings per Share
Profit attributable to ordinary shareholders' divided by number of shares in issue during that period.

Effective Interest Rate
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the Financial Asset or Financial Liability.

Effective Tax Rate
Provision for taxation excluding deferred tax and prior year adjustments 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.

F

Fair Value
Fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Finance Lease
A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Asset
Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Asset or Financial Liability at Fair Value through Profit or Loss
Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss.

Financial Guarantee Contract
A Financial Guarantee Contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial Investments Available for Sale
Available for sale financial assets are those non derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity or financial assets at fair value through profit or loss.

Financial Investments Held to Maturity
Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Financial Instruments
Any contract that gives rise to a financial assets of one entity and financial liability or equity instrument of another entity.

Financial Liability
A contractual obligation to deliver cash or another financial asset to another entity.

Foreign Exchange Profit
Foreign Exchange Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transactions/last Balance Sheet date and the settlement/ Balance Sheet date. Also arises from trading in foreign currencies.

Forward Exchange Contract
Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

General Provisions
General Provisions are established for all Loans and Advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Glossary of Financial & Banking Terms

Guarantees
Primarily represent irrevocable assurances that a Bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

H

Hedging
A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements.

Historical Cost Convention
Recording transactions at the actual value received or paid.

I

Individually Impaired Loans and Advances
Loans and Advances those are individually significant to the Bank and Impairment of which are measured individual/specific basis.

Impairment
This occurs when recoverable amount of an asset is less than its carrying amount.

Individual Impairment Provisions
Individual impairment provisions are provisions held in account of Individually Significant Loans and Advances.

Impaired Asset Cover
Impaired Assets Cover is the ratio of total impairment provision to total impaired assets.

Intangible Asset
An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/ services or for rental to others or for administrative purposes.

Interest in Suspense
Interest due on Non Performing assets.

Interest Margin
Net interest income as a percentage of average total assets.

Interest Rate Risk
The risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

Interest Spread
Represents the difference between the average interest rate earned on interest earning assets and the average interest rate incurred on interest bearing liabilities.

Interest Earning Assets
Includes loans and receivables, placements with Banks, Held to Maturity Financial Investments and interest bearing Held for Trading Financial Assets.

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

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.

M

Market Capitalisation
Number of ordinary shares in issue multiplied by the market value of each share at the year end.

Market Risk
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality
The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Accommodation
Total net accommodation computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of five years or more.

Net Assets Value per Share
Shareholders' funds divided by the number of ordinary shares in issue.

Net Interest Income
The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds, subordinated term borrowings & inter-bank borrowings etc.

Non - Performing Advances Ratio (Gross)
Total Non - Performing Advances net of Interest in Suspense divided by total advances portfolio net of Interest in Suspense.

Non - Performing Advance Ratio (Net)
Total Non - Performing Advance net of Interest in Suspense and Loan Loss Provision divided by total advance portfolio net of Interest in Suspense and Loan Loss Provision.

Nostro Account
A foreign currency current account maintained with another Bank, usually but not necessarily a foreign correspondent Bank.

O

Off-Balance Sheet Transactions
Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

Operational Risk
This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Open Credit Exposure Ratio
Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

P

Past Due
A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Provision for Loan Losses
A charge to income added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets to estimated realisable values.

Projected Unit Credit Method
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Probability of Default (PD)
PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

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.

R

Ratio of Impaired Loans and Receivables
Ratio for Impaired Loans and Receivables is the ratio of gross impaired asset portfolio as a percentage of gross Loans and Receivables.

Related Parties
Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Repurchase Agreement
Contract to sell and subsequently repurchase securities at a specific date and price.

Return on Assets
Profit after tax divided by the average assets.

Return on Equity (ROE)
Profit after tax expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserve
Reserves set aside for future distribution and investment.

Reverse Repurchase Agreement
Transaction involving the purchase of the securities by a bank or dealer and resale back to the seller at a future date and specified price.

Risk Weighted Assets
On-Balance Sheet assets and the credit equivalent of Off- Balance Sheet facilities multiplied by the relevant risk weighting factors.

S

Segment Reporting
Segment reporting indicates the contribution to the revenue derived from business segments such as retail banking, corporate banking and treasury.

Shareholders' Funds
Total of stated capital and revenue reserves.

Statutory Reserve Fund
A reserve created as per the provisions of the Banking Act No. 30 of 1988.

T

Total Tier I Capital
Total Tier I Capital comprise of Common Equity Tier I Capital and Additional Tier I Capital.

Tier 2 Capital
The Tier 2 Capital comprise of Eligible Subordinated Debt, General provision for Performing and Special Mention Credit Facilities and approved Revaluation Surpluses on Freehold Land and Building.

Total Capital
Total Capital representing the sum of Total Tier I 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.

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 THIRD ANNUAL GENERAL MEETING of PAN ASIA BANKING CORPORATION PLC will be held at The Kingsbury - (Location - The Winchester, Basement Level), No.48, Janadhipathi Mawatha, Colombo 01 on 29th March 2018 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 2017 with the Report of the Auditors thereon.

2. To re-elect, Jayaraja Chandrasekera, 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, Nihal Kekulawala, 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, Aravinda Perera, in terms of Article 89 of the Articles of Association as a Director.

5. To authorise the Directors to determine donations for the year 2018.

6. To re-appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.

Notes :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead.

2. A proxy need not be a member of the Company. The form of proxy is enclosed herewith.

3. The completed form of proxy must be deposited with the Company Secretary at the Registered Office of the Company, No. 450, Galle Road, Colombo 3 not later than 48 hours prior to the time appointed for the holding of the meeting.

4. Shareholders/proxies attending the meeting are requested to bring their National Identity Cards.

By Order of the Board

N Fernando

Nayantha Fernando
Company Secretary

16th February 2018

Form of Proxy

I/We ....

(NIC No/s...) of ....

....being

a shareholder/being shareholders of Pan Asia Banking Corporation PLC, hereby appoint

1.	Dimuth Prasanna	of Colombo or failing him
	Sarath Rangamuwa	of Colombo or failing him
	Mohan Abeynaike	of Colombo or failing him
	Takashi Igarashi	of Colombo or failing him
	Toyohiko Murakami	of Colombo or failing him
	Jayaraja Chandrasekera	of Colombo or failing him
	Nihal Kekulawala	of Colombo or failing him
	Aravinda Perera	of Colombo or failing him
	Nimal Tillekeratne	of Colombo

2. ....

(NIC No...) of ....

....

as my/our* proxy to vote on my/our* behalf at the Twenty Third Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 29th March 2018 at 9.30 a.m. and at any adjournment thereof.

I/We, the undersigned, hereby authorise my/our* proxy to vote for me/us* and on my/our* behalf in accordance with the preference as indicated below.

		For	Against
1.	**Resolution No. 1** To receive and consider the Annual Report of the Board of Directors on the Affairs of the Bank and the Audited Financial Statements for the year ended 31st December 2017 with the Report of the Auditors thereon.		
2.	**Resolution No. 2** To re-elect Jayaraja Chandrasekera, 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 Nihal Kekulawala, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.		

Form of Proxy

	For	Against
4. **Resolution No. 4** To re-elect Aravinda Perera, 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 2018.		
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 Eighteen.

…………………………………
Signature of Shareholder.

Note : Instructions as to completion of the Form of Proxy.

1. To be valid, this form of proxy must be deposited with the Company Secretary at the Registered Office situated at No.450, Galle Road, Colombo 3, before 9.30 a.m. on the 27th March 2018 being 48 hours before the time appointed for holding the meeting.

2. In perfecting the form of proxy please ensure that all details are legible.

3. The proxy appointed need not be a shareholder of Pan Asia Banking Corporation PLC.

4. If the shareholder is a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.

5. A shareholder appointing a proxy (other than a Director of the Bank) to attend the meeting should indicate the proxy holder's National Identity Card (NIC) number on the Form of Proxy and request the proxy holder to bring his/her * National Identity Card with him/her*.

6. Please indicate with 'x' in the space provided how your proxy is to vote on each resolution.

* Delete whichever is inapplicable.

Corporate Information

Registered Name of the Company
Pan Asia Banking Corporation PLC

Legal Form
A Public Limited Liability Company incorporated in Sri Lanka on 06th March 1995 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007. A Licensed Commercial Bank under the Banking Act No. 30 of 1988 and listed on the Colombo Stock Exchange.

Company Registration Number
PQ 48

Registered Office/Head Office
No. 450, Galle Road,
Colombo 03.
Sri Lanka.
Telephone : +94112565565
+94114667777
+94115167000
Fax : +94112565558

Call Center (24/7 Customer Service Hotline)
Telephone : +94114667222
Fax : +94112575023
SWIFT Code : PABSLKLX
E-mail : customerservice@pabcbank.com
Web Site : www.pabcbank.com

Tax Payer Identification Number (TIN)
134005700

Accounting Year End
31st December

Stock Exchange Listing
i) 442,561,629 Ordinary Shares
ii) 2014/2019 Debentures -30,000,000 Rated, Unsecured, Subordinated, Redeemable Debentures of Rs.100/- each.
iii) 2015/2018 and 2015/2019 Debentures - 40,000,000 Rated, Unsecured, Senior, Redeemable Debentures of Rs.100/- each.

Board of Directors

Dimuth Prasanna	-	Chairman
Sarath Rangamuwa	-	Deputy Chairman
Mohan Abeynaike	-	Senior Director
Takashi Igarashi	-	Director
Toyohiko Murakami	-	Director
A. A. Wijepala	-	Director
Jayaraja Chandrasekera	-	Director
Nihal Kekulawala	-	Director
Aravinda Perera	-	Director
Nimal Tillekeratne	-	Director/CEO

Company Secretary
Nayantha Fernando

Board Audit Committee

Mohan Abeynaike	-	Chairman
Toyohiko Murakami	-	Director
A. A. Wijepala	-	Director
Nihal Kekulawala	-	Director
Sarath Rangamuwa	-	Director

Board Credit Committee

Dimuth Prasanna	-	Chairman
Sarath Rangamuwa	-	Director
Jayaraja Chandrasekera	-	Director
Aravinda Perera	-	Director

Board Integrated Risk Management Committee

Nihal Kekulawala	-	Chairman
Dimuth Prasanna	-	Director
Takashi Igarashi	-	Director

Board Human Resources & Remuneration Committee

Dimuth Prasanna	-	Chairman
Mohan Abeynaike	-	Director
Nihal Kekulawala	-	Director

Board Nomination Committee

Mohan Abeynaike	-	Chairman
A A Wijepala	-	Director
Aravinda Perera	-	Director

Board Strategic Planning Committee

Mohan Abeynaike	-	Chairman
A. A. Wijepala	-	Director
Nihal Kekulawala	-	Director
Aravinda Perera	-	Director
Sarath Rangamuwa	-	Director

Board Related Party Transaction Review Committee

Mohan Abeynaike	-	Chairman
A. A. Wijepala	-	Director
Jayaraja Chandrasekera	-	Director

Auditors
Ernst & Young
Chartered Accountants
No. 201, De Saram Place,
P. O Box 101,
Colombo 10,
Sri Lanka.

Credit Rating

National Long-Term Rating
Fitch Rating 'BBB-(lka)' Stable Outlook [2016: BBB-(lka)]

Instrument Ratings (Fitch Ratings Lanka)
Subordinated Debentures 2014/2019: Fitch Ratings: 'BB+(lka)'
Senior Debentures 2015/2018: Fitch Ratings: 'BBB-(lka)'
Senior Debentures 2015/2019: Fitch Ratings: 'BBB-(lka)'

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Pan Asia Banking Corporation PLC
450, Galle Road, Colombo 03, Sri Lanka.

Web : www.pabcbank.com **Call :** +94 11 4 667 222 **Fax** : +94 11 2 575 023