

# Believe it

Annual Report 2015



# Believe



## About Pan Asia Banking Corporation PLC

Pan Asia Banking Corporation PLC is a Licensed Commercial Bank and a Public Limited Liability Company incorporated in Sri Lanka with its Ordinary Shares and Debentures listed in the Colombo Stock Exchange. Having commenced business operations as 'Pan Asia Bank Limited' in 1995, the Bank is currently positioned as 'The Understanding Bank' in Sri Lanka and operates with 79 branches at key locations around the island. The Bank has been recognised as the "Fastest Growing Commercial Bank in Sri Lanka" by London based, Global Banking and Finance Review for the second consecutive year in 2015.

Adaptable. Active.  
Understanding. Innovative.  
Ethical. Accountable.  
Prudent. Value-driven.

Can any Bank really be all of this? We are.  
Believe it.

At Pan Asia Bank, we believe we have identified the key factors of success and made them our own. Recognising what today's entrepreneurs, business enterprises and ordinary people demand from their Bank, we're driving flexibility, agility, business intelligence and value into every product and service we offer.

Our business model is designed for speed, endurance and value and this report offers evidence of its success, describing a year of exceptional growth and profitability for all our stakeholders: the many customers, communities, business partners, employees and shareholders we are proud to serve today.

Read it carefully and you will see how we have grown to match our biggest competitors in performance and service, exceeding your expectations and delivering on our promise of increased value across the board, yet again.

Believe  
it

Pan Asia Bank

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## Vision

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

## Mission

We will create the largest satisfied customer base by providing professional, personalised, secure, speedy, 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.

## 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 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 the customer needs and exceeding expectations.

### **Commitment**

We are dedicated to the success of our organisation, 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.



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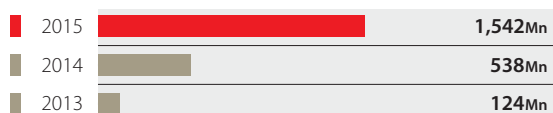
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# Financial Highlights

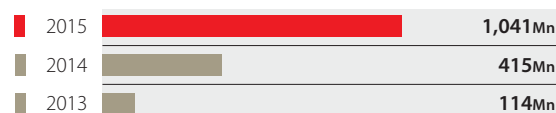
	2015	2014	Change%
<b>Results for the Year (Rs. Mn)</b>			
Gross Revenue	10,759.14	8,843.96	21.66
Net Interest Income	3,962.59	2,739.98	44.62
Total Operating Income	5,634.33	4,026.95	39.92
Operating Profit Before VAT and NBT on Financial Services	1,904.00	754.51	152.35
Profit Before Tax	1,542.13	538.43	186.41
Profit for the Year	1,040.52	415.21	150.60
<b>Position at the Year End (Rs. Mn)</b>			
Gross Loans and Receivables to Other Customers	86,322.65	63,292.72	36.39
Total Assets	107,782.97	79,605.27	35.40
Shareholders' Funds	5,773.27	4,734.63	21.94
Due to Banks	7,515.61	1,134.16	562.66
Due to Other Customers	77,697.05	64,895.22	19.73
<b>Financial &amp; Investor Ratios</b>			
Net Interest Margin (%)	4.34	3.82	13.60
Return on Equity (%)	19.94	9.81	103.27
Return on Assets (%)	1.14	0.58	95.05
Cost to Income (%)	52.89	61.03	(13.34)
Earnings Per Share (Rs)	3.53	1.41	150.44
Net Assets Value Per Share (Rs)	19.57	16.05	21.94
Market Price Per Share (Rs)	27.10	25.90	4.63
<b>Statutory Ratios</b>			
Capital Adequacy			
Eligible Core Capital (%) (Minimum Requirement - 5%)	7.82	8.97	(12.82)
Total Capital (%) (Minimum Requirement -10%)	12.30	14.19	(13.32)
Liquid Assets (SLAR)			
Domestic Banking Unit (%) (Minimum Requirement -20%)	24.39	21.88	11.47
Foreign Currency Banking Unit (%) (Minimum Requirement -20%)	50.63	22.27	127.35
Non Performing Advances Ratio (%)			
Gross	4.84	5.73	(15.53)
Net	3.26	3.78	(13.76)



### Profit Before Tax



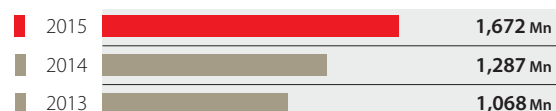
### Profit for the Year



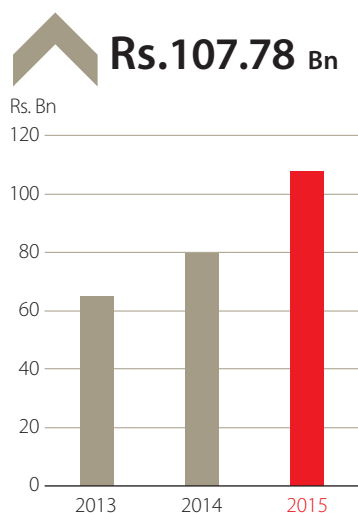
### Net Interest Income



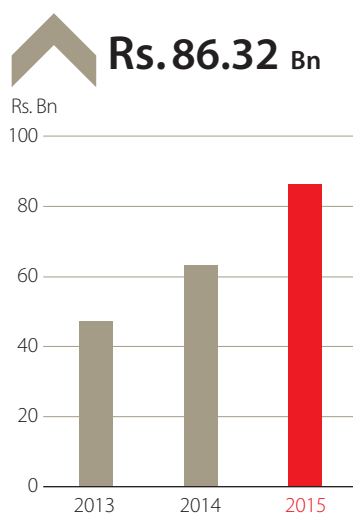
### Non Interest Income



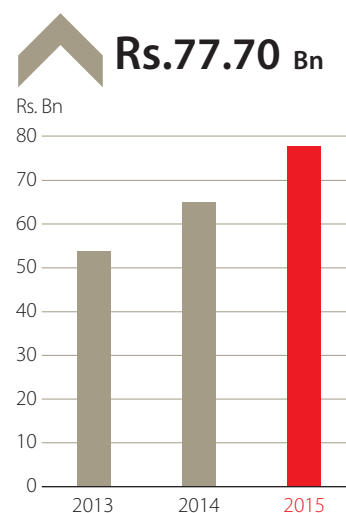
### Total Assets



### Gross Loans & Receivables to Other Customers



### Due to Other Customers



**19.94%**

Return on Equity (ROE) increased by 103.27%

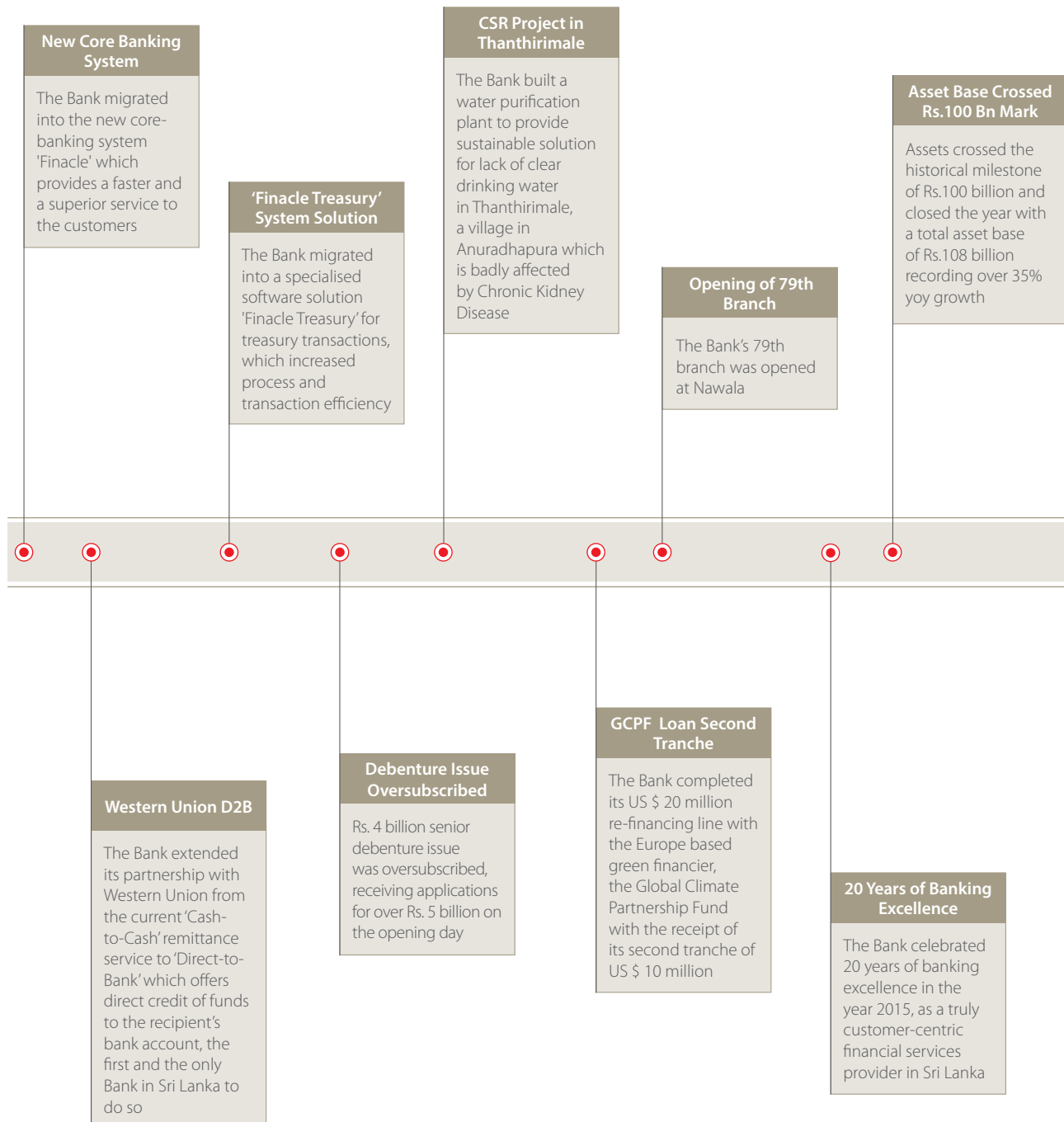
**1.14%**

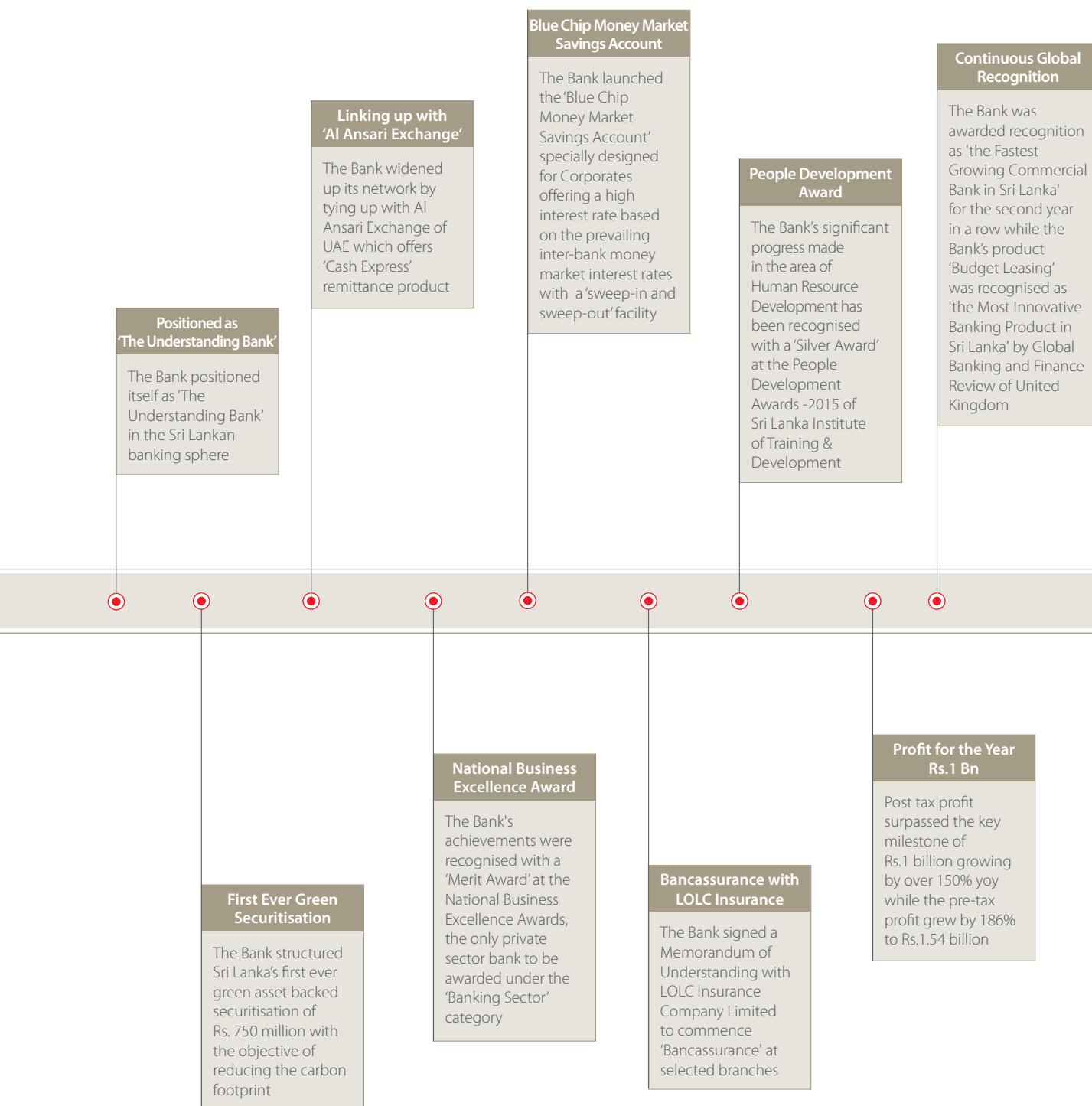
Return on Assets (ROA) increased by 95.05%

**4.34%**

Net Interest Margin (NIM) increased by 13.60%

# Accomplishments of the Year 2015





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# Awards and Accolades

Pan Asia Bank was recognised both locally and globally for its excellent performance demonstrated in all areas of business during the year.

## 1. National Business Excellence Award

In 2015, Pan Asia Bank created history at the National Business Excellence Awards (NBEA) - 2015 by becoming the only private sector commercial bank to receive the coveted award under the 'Banking Sector' category.

The Bank received the Merit Award in the 'Banking Sector Extra Large' category for the significant strides made in all areas of the Bank which outperformed many other players at the 12th diet of NBEA organised by the National Chamber of Commerce of Sri Lanka.

The fact that Pan Asia Bank featured among the industry's largest and the oldest players makes the award much more significant for the Bank which celebrates 20 years of banking excellence in 2015.

The Bank's performance was evaluated under seven key areas : excellence in leadership, corporate governance, capacity building, market reach, corporate social responsibility, business results and financial results.

## 2. SLITAD People Development Award

The significant progress made by the Bank in 2014 and 2015 was duly recognised with a 'Silver Award' at the SLITAD People Development Awards – 2015 held in November 2015.

Pan Asia Bank was the only banking sector institution to feature at the third diet of the People development Awards organised by Sri Lanka Institute of Training & Development (SLITAD).

People Development Awards 2015 is the country's premier awards program which recognises the best practices in the area of human resource development among the Sri Lankan business enterprises.

## 3. Fastest Growing Commercial Bank

For the second consecutive year, in 2015 Pan Asia Bank was recognised as 'the Fastest Growing Commercial Bank in Sri Lanka' by London based, Global Banking and Finance Review.

## 4. Most Innovative Banking Product

Pan Asia Bank's 'Budget Leasing' was, also recognised as the 'Most Innovative Banking Product in Sri Lanka - 2015' by Global Banking and Finance Review.

This is the second instance in a row that the Bank's product was recognised as most innovative as in 2014 too Pan Asia Bank's flagship product, 'Sammana' was awarded as the most innovative banking product in Sri Lanka.



National Business Excellence Award – 2015  
National Chamber of Commerce of Sri Lanka



People Development Award – 2015  
Sri Lanka Institute of Training & Development



Fastest Growing Commercial Bank in Sri Lanka – 2015  
Global Banking and Finance Review



Most Innovative Banking Product in Sri Lanka – 2015  
Global Banking and Finance Review

IDEA → STRATEGY → SUCCESS  
1                      2                      3



Management Information and Executive Reviews

Adaptable.  
Active.  
Quick.

Believe  
**it**

Pan Asia Bank

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## Chairman's Review

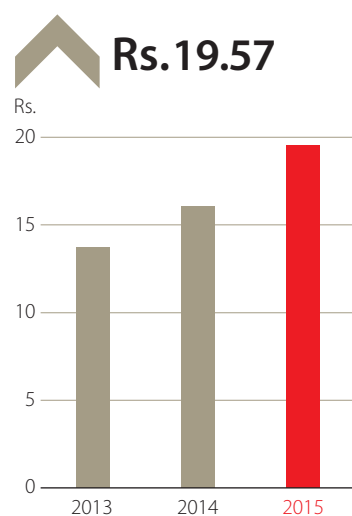


**W. D. N. H. Perera**  
Chairman



Your Bank crossed its Rs.1 billion after tax profit mark to post an year-end post tax profit of Rs.1.04 billion recording over 150% yoy growth.

#### Net Asset Value Per Share



#### Total Assets

**107.78 Bn**

Total Assets increased by 35.40%

#### Dear Shareholder,

It gives me great pleasure to welcome you to the Twenty First Annual General Meeting of Pan Asia Banking Corporation PLC and present you the Annual Report and Audited Financial Statements for the year ended 31st December 2015.

#### Performance in context

You will be pleased to note that your Bank performed exceptionally well during the year as it achieved many milestones both financially and otherwise, amid global economic conditions that posed certain challenges and domestic macro-economic conditions which created favourable circumstances and opportunities.

Your Bank's total assets surpassed Rs.100 billion mark during the year and ended the year with Rs.107.78 billion asset base recording over 35% year on year (yoy) growth in the balance sheet.

The Net Loans and Receivables book grew by 40% to Rs. 84.19 billion, recording most likely the highest growth rate in the industry while improving the asset quality reflected by the gross non performing loan ratio which was brought down to 4.84%.

Crowning achievements of the year, your Bank crossed its Rs.1 billion profit after tax mark to post an year-end after tax profit of Rs.1.04 billion recording over 150% yoy growth.

The performance is broadly in line with the Bank's 3 year strategic plan which is a testament to the direction given by the Board and the effective execution of those strategies by the management team.

Apart from these achievements, your Bank was recognised as 'the Fastest Growing Commercial Bank in Sri Lanka' for the second consecutive year by the United Kingdom's Global Banking and Financial Review while the National Chamber of Commerce of Sri Lanka recognised the Bank for its business excellence at the National Business Excellence Awards - 2015 making Pan Asia Bank the only private sector Bank to be recognised under the 'Banking Sector' category.

In light of this overall performance, I am pleased to inform the shareholders that the Board of Directors has recommended a final dividend of 50 Cents per share for the FY 2015.

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# Chairman's Review

Despite this declaration of dividends which was announced after 3 years, I must emphasize that we are in line with the 2 year capital augmentation plan agreed with the regulator and the plans are afoot to ensure that we stay in line with the capital requirements set out by the new Basel rules for the banking sector.

Let me now set out the broader view of the global and domestic economic conditions under which your Bank recorded this performance and the challenges we might have to encounter in the ensuing year.

## Global & Domestic Economic Conditions

Global economy remained gloomy with the exception of United States (US) which is the only country to show recovery since the global financial crisis in 2009. The International Monetary Fund (IMF) in their latest World Economic Outlook released in October, estimated the global gross domestic product to have grown by just 3.1% in 2015, slower than their previous estimates.

The spillover effects of the deep rooted debt crisis in the Euro Zone, budget cuts by the Middle East over the falling oil prices, slowing Sub-Saharan African and Latin American economies due to the falling commodity prices, re-balancing China and geo-political issues in Russia have been felt by the Sri Lankan economy in varying proportions and will have to continue to price in those factors going forward.

In this broad context the Sri Lankan economy showed resilience albeit slowed growth due to the political and economic policy shifts which took place at the beginning of the year.

The IMF in September projected Sri Lanka's growth between 5.0% -5.5% for 2015, below the Central Bank's 7.0% initial estimates and 7.4% growth reported in 2014.

However, the year saw a strong rebound in the private credit from the second half of the year which hitherto was lackluster due to the transition of the monetary policy actions taken during the previous years.

This was further exacerbated by the 50 basis points rate cut in April 2015 and in particular, the fiscal stimulus received from the two budgets - the one presented in October 2014 and the mini-budget presented in January 2015 which contained tax cuts, energy price reductions and a public sector wage increase.

These measures improved the positive consumer sentiments leading to consumer demand which in turn triggered demand for consumption credit. Given this conducive environment, the Banks expanded their lending books substantially (with an average growth of 25% in 2015) whilst your Bank recorded an above average growth.

However, there is a possibility that the sustainability of this growth may be challenged as a tightening cycle has just begun with the increase in the Banks' reserve ratio from January 2016 onwards, with the view of managing excessive Bank credit in to consumer expenditure.

This economic policy now encourages a more private sector led, foreign direct investment and private investment financed growth model which is expected to open up many opportunities for the Banking sector in the country.

## Our Focus in 2016

Your Bank will continue to enhance its service standards and closely monitor them as I believe that there is no better clear differentiator to stay ahead of the competition than the highest level of customer service.

In order to uninterruptedly deliver the Bank's brand promise, the Bank will continue to invest in the staff through training and development, to offer superior Banking solutions to meet every financial need of the customer.

Having successfully implemented a futuristic core banking system and a treasury system in 2015, the Bank will continue to invest in information technology both as a means of enhancing efficiency levels and increasing the reach towards inclusive banking.

We are well aware of the aspirations of emerging digital consumers and will channel investments into developing the technological platforms that are required to stay ahead of the emerging trends.

As its initial step, the Bank will launch its new cutting edge internet banking platform during the first quarter of 2016, which enables both retail and corporate clients to perform their transactions at ease.

Meanwhile, the Bank has already earmarked many locations in key towns across the country to further increase its foot print which has a network of 79 branches at the year end.

Innovation and new product development are two areas where we have continuously excelled in the past. We will continue to play a leading role in these two key areas in the industry.

I believe the pressure on compressing margins could only be addressed through continuous innovation and effective cost management initiatives in all areas of banking while differentiating ourselves through our unmatched customer service.

Going forward the Bank will continue to remain open to opportunities that may arise while aligning with the regional development drive and priority sectors

of the Government to create a financial inclusion which is expected to solve many social issues.

Further, as we look to the future, we will continue to review our strategies periodically as the political, economic, social, technological and environmental factors around are fast changing, in order to keep ahead of those to make the most out of them.

### Outlook for 2016

With the rise in interest rates and the tightened liquidity after the hike in statutory reserve ratio, the demand for private credit could slow down which in turn could challenge the growth in the banking sector.

Nevertheless, the negative effects of the slowdown in credit growth could be offset to a certain degree, with the new priority areas being opened up for investment where the private sector will play a leading role.

Further, with the possibility of the Government borrowings from the local banking sector increasing, there is a likelihood of a decrease in liquidity available for private sector borrowing.

Meanwhile, the 70% cap on the loan-to-value ratio on vehicle financing which came in to effect from 1st December 2015 and the higher vehicle import duties have already started translating into lower vehicle imports.

The budget proposal on restricting banks from conducting leasing business will have a significant impact on the growth and the profitability of the sector. However, there is likelihood that this proposal may be reviewed shortly.

The budget 2016 categorised the banking sector under the higher corporate tax category which already pays taxes at

a very high effective tax rate. While appreciating the need to increase the country's tax revenue, it is also important to ensure sustainable growth in the banking industry, which plays a catalysing role in the country's economic activity.

As such, at a time when the banking sector is geared to channel more funds in to micro, small and medium enterprises and rural economies as spelt out in the national economic policy, it is pivotal that a balanced tax policy is applied on the banking industry thus ensuring its growth.

This becomes more important as the Banks are required to raise its Regulatory Capital in line with the new Basel regulations on the banking sector.

While it is a progressive step to bring measures to take the under-banked segments in to the financial system through expansion of branch network, we are also focusing on enhancing digital channels that can act as a strong enabler in creating financial inclusion and extending banking reach more efficiently.

Meanwhile, the slowdown in worker remittances from the Middle East due to a cut down on their spending as a result of lower oil prices could pose challenges to the economy as it constitutes a lion's share of the country's current account.

Despite the above challenges your Bank is well poised to capitalise on the construction, tourism and property segments which are identified as growth drivers in the economy and will closely watch for any other emerging sectors that enable us to play a catalysing role in the national economy as well in the people's lives as 'The Understanding Bank' in the country.

### Appreciation

In closing, I offer my gratitude to my colleagues on the Board for their invaluable guidance and contribution without which this exemplary performance could not have been achieved.

Your Bank is now a formidable mid-sized Bank which is on a fast and sustainable growth path in the able hands of one of the most versatile management teams in the industry.

I would like to express my appreciation to the Chief Executive Officer, Dimantha Seneviratne and his management team, all the employees for their passion, competence and commitment towards bringing the Bank's vision, mission and goals to life.

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

The fruits of all your efforts will now start to uncover as you go through this report, and I am confident the Bank is now poised to record even better results in 2016 and beyond, building on the remarkable progress made during the year.



**W. D. N. H. Perera**  
Chairman

Colombo  
17th February 2016

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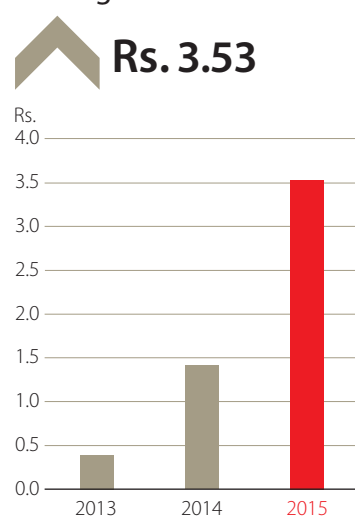
## Chief Executive Officer's Review



**Dimantha N. Seneviratne**  
Director / Chief Executive Officer

The Bank recorded a growth of over 35% in total assets, surpassing the key milestone of Rs.100 billion asset base and closed the year with assets totalling Rs.107.78 billion.

#### Earnings Per Share



#### Profit after Tax

1.04 Bn

Profit after Tax increased by 150.60%

#### Dear Stakeholder,

It gives me great pleasure and pride to share with you the commendable and outstanding performance achieved by the Bank in 2015, an excellent year in which we achieved several key milestones and demonstrated beyond doubt, its capabilities to reach new heights amidst various challenges. The story of Pan Asia Bank, over the years, has been one of growth and success, and I would say that 2015, the year we celebrated 20 years of outstanding contribution in the banking industry, was our best year yet. I would say that we now stand out in the industry as a stronger and resilient Bank and a force to be reckoned with. The journey still continues and the foundation that has been set in the year under review will help us continue our steady progress in years to come as 'The Understanding Bank'.

This outstanding performance and achievements, the story that is unfolded in the forthcoming pages, was a result of the combination of many factors that were carefully planned and executed, hence it is a story you can 'Believe in'.

It is the success story of bringing together the right strategies and proper execution, brought about by a dedicated and committed team of people, 'Team Pan Asia'.

#### The External Environment

The world economic outlook had mixed implications with IMF revising the global GDP growth rate downwards to 3.1%. Austerity measures in Europe and debt crisis in the South American region loomed big. The slowdown in China, falling oil prices, hike in Fed Rates that brought volatility to the exchange rates and pressure on emerging market currencies all added to the uncertainty in global markets.

The Sri Lankan economy grew by 4.8% in the 3rd quarter and was projected to grow between 5.0% -5.5% during the year. Private sector credit grew by around 25% during the year. Sri Lanka underwent significant political changes that brought changes to economic policy. The Central Bank further liberalised the exchange rate policy and raised the Statutory Reserve Ratio by 1.5% to 7.5% effective from

# Chief Executive Officer's Review

## Operating Profit

■ 2015		1,904 Mn
■ 2014		755 Mn
■ 2013		228 Mn

## Shareholders' Funds

■ 2015		5,773 Mn
■ 2014		4,735 Mn
■ 2013		4,049 Mn

16th January 2016 onwards signalling a tightening of monetary policy and resulting in a drain on liquidity leading to a hike in domestic interest rates.

### Exceptional growth, excellent performance

Amidst this challenging environment, the year under review saw the Bank reaching many a milestone, which was a result of us pragmatically adapting our strategies to capitalise on the opportunities that were present.

The Bank recorded a growth of over 35% in total assets, surpassing the key milestone of Rs.100 billion asset base and closed the year with assets totalling Rs.107.78 billion, in an year which Banking sector assets grew far below.

Our assets grew by over 5-fold within a span of just 6 years from a balance sheet of Rs. 21.56 billion in 2009. Our capital ratios remained well in excess of the regulatory minimum throughout the year and our Regulatory Capital stood at Rs. 8.13 billion by the end of the year.

The growth in assets stemmed mainly from the expansion in our net loans and receivable book which recorded a steady growth of 40% in 2015. This is on top of a 34% growth achieved in 2014, much higher than the industry private credit growth recorded during both years.

The fact that we contributed almost 5% of the country's private sector credit

We expanded our loan book whilst improving the quality of our assets. The Gross Non Performing Advances ratio further improved to 4.84% while our Net Non Performing Advances ratio also improved to 3.26%.

growth in the first nine months in 2015 makes this growth even more significant. This demonstrates that the Bank is now playing a major role in catalysing and re-shaping many industries and livelihoods in every corner of our country.

Our continuous growth demonstrates the sustainability of our business model irrespective of the challenges in the external environment, thus a story that you can 'Believe in'.

### Balanced Growth & Portfolio Quality

We maintained a balanced growth in all areas; namely Retail, SME, Credit Cards, Corporate Banking, Trade and Treasury.

The excellent salesmanship shown by the staff enabled us to turn the opportunities presented by the macro-economic environment into expanding portfolios as seen in growth in housing, leasing, personal and consumer credit sectors.

## Operating Profit

1.90 Bn

Operating Profit before VAT and NBT increased by 152.35%

## Cost to Income Ratio

52.89%

Cost to Income Ratio improved by 13.34%

It is noteworthy that our card business had a substantial growth of 135% to reach Rs.1.47 billion in 2015. At a time when the credit card industry was stagnating, the number of active cards also reached a new record level. I am happy to state that our card business plays the role of a responsible Bank as we recorded these achievements by way of charging the lowest interest rate in the industry and offering convenient settlement arrangements to help our valued customers plan their finances more rationally.



It is also pertinent to mention that we expanded our loan book whilst improving the quality of our assets. The Gross Non Performing Advances (GNPA) ratio further improved to 4.84% while our Net Gross Non Performing Advances ratio also improved to 3.26%.

This is a result of our rigorous recovery efforts and enhanced credit underwriting standards. The Bank operates with very stringent credit quality standards with the introduction of an independent assessment process where credit decisions are subject to oversight by the central credit risk management team. Enhanced asset quality is also due to the Bank's pro-activeness to changes in the market, and the early warning system that has been established, that enables us to review the credit risk and take precautionary actions. With these measures in place, we are confident of further improving the asset quality during the coming years.

### Enhanced efficiency

During the year the Bank continued its efforts to improve efficiency in all areas of operations, as reflected in improvements to the cost-to-income ratio of 52.89% recorded in 2015 compared to 61.03% in 2014.

We leveraged on the information technology platform, having migrated to a new core banking system with a substantial investment, during the first quarter. This was followed by the new state of the art treasury core banking migration that went live during the second quarter. During the fourth quarter, we further initiated a Business Process Re-engineering exercise to review our head-office functions with the objective of improving turnaround times and further maximising staff productivity. The programme is now being implemented

and we believe once it is completed, it will further improve our cost-to-income ratio and turn around times.

Striving for operational excellence has been a key priority not just to achieve service excellence and customer convenience, but also to optimise resource utilisation to drive for higher efficiency at a time when margins are under stress.

While we can be happy with the progress made so far, I believe there is scope for further improving our efficiencies and productivity with the ultimate goal of setting a benchmark for the industry.

### Enhanced Profitability

Underpinned by the above successes, the Bank surpassed the billion rupee mark in after tax profits to close the year with Rs.1.04 billion, a growth of over 150% compared to the profit after tax the Bank posted in 2014.

I am also happy to state that the Return on Equity reached 20% level and is now amongst the highest in the industry.

These profits were recorded despite higher provisions for impairment on Loans and Receivables in excess of Rs. 750 million. Higher loan loss absorption capacity puts the Bank in a better stead to withstand unexpected shocks which could arise in the financial system in times of stress.

At a time when industry margins were under pressure, we improved our Net Interest Margin (NIM) from 3.82% to 4.34% as a result of pro-active funding decisions and timely portfolio re-pricing strategies.

While the core-banking business showed excellent results as the net interest income rose by 45% to Rs. 3.96 billion, the Bank continued to seek ways to increase and

diversify the non-fund based incomes with the objective of countering the pressure on the margins and to sustain the profitability and growth in the medium to long term.

During the year, non interest income grew by 30% to Rs.1.67 billion, amply supported by the increased foreign exchange profits, capital gains and fee and commission income.

### Funding the growth

While the liquidity has remained at reasonably comfortable levels during the first half of the year, the sharp pick-up in demand for credit in the second half plus tighter monetary policy exerted pressure on funding.

However, the Bank took pro-active measures to ensure the availability of funds to support the growth and continuously maintained sufficient liquidity levels.

While deposits continued to form the larger source of funding for the asset growth, the Bank continuously looked for alternative sources of funds. One such measure was our bold decision to raise Rs. 4 billion via a listed senior debenture issue in September. The issue was oversubscribed on the opening day itself and helped us to lock-in funds at a relatively low rate compared to subsequent issues that came to the market. This proved that our view on the movement of interest rates was correct. This was the second such debenture the Bank issued within a span of 12-months and demonstrates the confidence the investors have in our current and future strategies.

Further, the Bank successfully completed a US \$ 20 million re-financing facility from the European based green lender, the Global Climate Partnership Fund (GCPF).

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# Chief Executive Officer's Review

Despite the low appetite that prevailed for Bank deposits, the Bank increased its deposit base by 20% yoy to Rs. 77.70 billion, over and above the budgeted growth in deposits for the year.

While our low cost fund base, Current and Savings Accounts (CASA) grew in absolute terms, the CASA ratio came down to 28.01% from 30.53% a year ago, mainly due to the faster growth in fixed deposits.

In view of the consumer spending that prevailed and lack of incentives for saving, raising funds through deposits was extremely challenging. Nevertheless, the Bank has already devised plans to further strengthen the funding base and to ensure the availability of adequate funds to support the envisaged growth.

## Our people drive performance

Our success story is driven by our committed and dedicated team of people. As such, people development has been a key priority in the agenda to drive and deliver our strategy. As a result, our investments on staff training and development increased significantly compared to the previous year. Activities to increase staff engagement was also a key feature during the year.

I would say, staff training, especially in the area of customer service, was a precursor to our corporate campaign to prepare the entire cadre to offer exceptional customer service when the Bank was positioned as 'The Understanding Bank' in October.

Among its many strengths, the Bank now has a very young cadre around 63% of our staff is below 30 years of age. This enables us to respond to market developments faster, giving us a clear edge against some of the larger players in the market. This

also enables us to identify the needs of the like-minded customer groups and develop innovative banking products to better suit the new generation customers. 'Sammana', 'Budget Leasing' and 'Business Plus' are a few of the most innovative products developed, based on fresh ideas by our young cadre, which has earned us a reputation as an innovative Bank and also won us international accolades for innovativeness.

Meanwhile we initiated a programme to identify and further develop our talent pool with the aim of building up succession planning and preparing them for future leadership roles.

## Responsible banking

In 2015, we took a new turn in our Corporate Social Responsibility (CSR) as the Bank adopted the triple bottom-line approach (People, Profit and Planet) to wealth creation as we believe the process of wealth creation is not just measured in terms of return on investment, but also in terms of our impact on the society as a whole and the environment.

We made a significant investment to build a water purification plant in Thanthirimale, a village having a population of over 1,500 villagers who are battling a chronic kidney disease due to lack of clean drinking water. This was completed and handed over to the village community based society at a simple ceremony that coincided with the Bank's 20th Anniversary.

Further, being true to our commitment to sustainability and a greener economy, we continued to extend our green lending reach for small and medium scale renewable energy generation and energy efficient industries.

As a further step towards responsible banking, we are in the process of reviewing our credit appraisal process to ensure all our advances are subject to a social and environment impact assessment.

We have taken conscious efforts throughout the year to minimise our carbon foot-print by identifying and implementing energy efficient systems within the Bank premises, minimising paper use by way of process automation and migrating to e-statements.

We continue to believe that CSR and sustainability are no more a 'nice to have' but a 'should have' arrangements as a responsible Bank.

## Recognition of banking excellence and Accolades

In recognition of all of the above achievements, the Bank was bestowed with multiple awards and was adjudged 'the Fastest Growing Commercial Bank in Sri Lanka - 2015' by the United Kingdom's Global Banking and Finance Review for the second consecutive year, while our latest leasing product, 'Budget Leasing' was recognised as 'the Most Innovative Banking Product in Sri Lanka - 2015'.

Our excellence in all areas of conducting business was recognised with a Merit Award in the 'Banking Sector' at the National Business Excellence Awards - 2015 conducted by the National Chamber of Commerce of Sri Lanka. We were the only private sector Bank to bag the coveted award.

Our progress made in people development was recognised with a Silver award at the SLITAD People Development Awards 2015 conducted by Sri Lanka Institute of Training and Development (SLITAD).



## Future outlook and strategy

With the limited liquidity and the resulting pressure on the interest rates along with the slowdown in the global markets, we expect the demand for Bank credit to slow down in the coming year compared to last year.

However, this could be offset by the gradual pick up in the investment climate, especially the new investments in identified sectors and the infrastructure development opportunities.

Sectors such as construction will rebound whilst tourism and the service sector will continue its growth momentum. Consumption driven demand for credit is expected to slow down due to higher interest rates and taxes.

Nevertheless, the Bank is resilient enough to face these challenges and make use of these opportunities with appropriate strategies.

Going forward, we will continue to strengthen our regional network with the objective of deepening our role in supporting the Micro and Small and Medium Enterprises (MSME) and assist in developing the regions outside the Western Province. Towards this end, we will extend our branch network in to those areas where the Bank density is relatively low.

We will continue to leverage on information technology and digital platforms in extending our reach. Our state-of-the-art internet banking platform is in the final stages of development and will be launched soon. We consider information technology as an enabler for business and financial inclusion and will be the means of extending our reach.

In growing our portfolio, we will continue to maintain a proper balance between the retail and SME sector and the corporate sector.

While appreciating the need to raise revenue through higher taxes, I believe that the present excessive tax structure needs to be reviewed, as it becomes difficult to attract fresh capital and support the growth that the country is expecting. This is particularly true at a time when the Banks have to gradually raise their Regulatory Capital in line with the new BASEL regulations which are now in place.

A well capitalised banking sector is of paramount importance in challenging times as this, and hence I hope that the policy makers would reconsider the prevailing tax structure applicable to the banking sector, which is a catalyst in the economy.

## Twenty Years of Banking Excellence

In 2015, Pan Asia Bank celebrated its 20th Anniversary. Looking back at the Bank's brief history, it is clear that Pan Asia Bank has shown incredible resilience in trying times and an ability to adapt to changes and grow amidst challenges, displaying great team spirit and determination.

Building upon our forte of understanding the customers' financial requirements better, we launched our new corporate campaign positioning our Bank as 'The Understanding Bank' in Sri Lanka. There could be many players in the market who serve a mass market but consistently delivering a personalised service is critical.

## Acknowledgments

I would like to place on record my sincere gratitude to the Chairman and the Board of Directors, for their valuable direction and support, and appreciation to our valued shareholders for placing their trust in us. Your valuable input and confidence in us has enabled 'Team Pan Asia' to deliver a story that can be 'believed in'.

I wish to thank our valued customers for their continued patronage of our services and the mutually rewarding business relationship which is based on trust and service. I acknowledge the contribution made by the regulators and our external auditors for their advice and guidance, and other stakeholders for their continued support.

Last but certainly not the least, I must commend the dynamic 'Team Pan Asia' for their hard work and commitment during the year, where we recorded exceptional performance coupled with many achievements.

We will continue to pursue strategies to understand and meet the financial needs of our customers whilst maintaining strong risk and governance frameworks, maintaining a strong balance sheet, and forging ahead towards meeting further excellence in 2016 and beyond.



**Dimantha N. Seneviratne**

Director / Chief Executive Officer

Colombo

17th February 2016

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# Board of Directors



Left to right

W. D. N. H. Perera - Chairman, R. E. U. De Silva - Deputy Chairman, M. A. Abeynaïke - Senior Director, M. D. S. Goonatilleke - Director, T. G. Thoradeniya - Director, G. A. R. D. Prasanna - Director, T. Igarashi - Director, T. Murakami - Director, S. B. Rangamuwa - Director, A. A. Wijepala - Director, H. N. J. Chandrasekera - Director, P. L. D. N. Seneviratne - Director / Chief Executive Officer, N. Fernando - Company Secretary / Deputy General Manager



We have identified the key factors of success and made them our own...

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# Board of Directors

## **W. D. N. H. Perera**

### **Chairman**

Mr. Nimal Perera is the Chairman of Pan Asia Bank with 33 years of experience in the fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management Services. Mr. Perera first joined the Board of Pan Asia Bank as a Director in September, 2007 and was appointed as the Deputy Chairman in March, 2008 and as Chairman in April, 2012. He serves as a Director in several public quoted Companies. He is the Managing Director of Royal Ceramics Lanka PLC and Chairman of Horana Plantations PLC, Lanka Ceramics PLC, Swisstek Ceylon PLC, N P Capital Ltd, Lanka Floortiles PLC, Lanka Walltiles PLC, Swisstek Aluminum Ltd and Vallibel Plantation Management Ltd. Deputy Chairman of Vallibel One PLC and holds the position of Director in several quoted companies which includes Amaya Leisure PLC, The Kingsbury PLC, L B Finance PLC, Hayleys PLC, Talawakelle Tea Estates PLC, Haycarb PLC. He is a member of the Sri Lanka Institute of Marketing.

## **R. E. U. De Silva**

### **Deputy Chairman**

Joined the Board of Pan Asia Bank in July, 2008 and was appointed as Deputy Chairman in April, 2012. He is the Chairman of Esna Holdings (Pvt) Ltd., Shermans Logistics (Pvt) Ltd, Shermans Transport (Pvt) Ltd, Hanjin Shipping Lanka (Pvt) Ltd and he is the Deputy Chairman of Esna (Pvt) Ltd and Director at Esna Power (Pvt) Ltd, Esna Exports (Pvt) Ltd., Sherman De Silva & Co. (Pvt) Ltd, Sherman Sons (Pvt) Ltd, Mc Marine (Pvt) Ltd, Esna Allied Enterprises (Pvt) Ltd, Mountbatten Lands (Pvt) Ltd, Plumbago Lanka (Pvt) Ltd, Esna International (Pvt) Ltd, Esna Lubricants (Pvt) Ltd, Integrated Shipping Agencies (Pvt) Ltd., Interocean Energy (Pvt) Ltd., and is the Honorary Consul General for Kazakhstan.

## **M. A. Abeynaïke**

### **Senior Director**

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

Mr. Abeynaïke 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. Abeynaïke is currently Chairman of Asia Pacific Investments (Pvt) Ltd and Deputy Chairman of Siyapatha Finance PLC.

## **M. D. S. Goonatilleke**

### **Director**

Joined the Board of Pan Asia Bank in August 2008. He is a financial professional with over 30 years of post qualification experience and has held Senior Managerial positions in Financial Management, Credit Management, Treasury, Export and Import Trade, General Management & Operations in leading private sector organisations in Sri Lanka. He is the Group Executive Director of Douglas & Sons (Pvt) Ltd. In addition, he serves as a Director in a number of other Public Companies including, Royal Ceramics Lanka PLC, Colombo Land Development and Investment PLC and Hayleys PLC. Mr. Goonatilleke possess as a Post Graduate Diploma in Business Administration, PIM, University of Sri Jayawardenapura and is an Associate Member of the Institute of Chartered Management Accountants (UK) and a passed finalist of the Institute of Chartered Accountants of Sri Lanka.

## **T. G. Thoradeniya**

### **Director**

Mr. Tharana Thoradeniya has over two decades of senior management experience in multi- industry scenarios. He is a Group Director of Royal Ceramics Lanka PLC and CEO/Director of Rocell Bathware Ltd. He also sits on the Boards of several

other public quoted and privately held companies in Sri Lanka, including Lanka Ceramics PLC, Lanka Walltiles PLC, Lanka Floortiles PLC, Hayleys Fibre PLC, Delmege (Pvt) Ltd, Vallibel Plantation Management Ltd., Dipped Products (Thailand) Ltd., and Unidil Packaging (Pvt) Ltd, amongst others. Tharana has been credited as a proven business innovator across industries. A marketer by profession, Tharana was in the pioneering batch of Chartered Marketers of the Chartered Institute of Marketing (UK).

## **G. A. R. D. Prasanna**

### **Director**

Mr. Prasanna who was appointed to Pan Asia Bank in May, 2012 is the Chairman of Grandmark (Pvt) Ltd. 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, Delmege Forsyth & Co. (Shipping) 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, Delship Services (Pvt) Ltd, Delmege Freight Services (Pvt) Ltd, Delmege Air Services (Pvt) Ltd, Lewis Brown Air Services (Pvt) Ltd, Hayleys Global Beverages (Pvt) Ltd and Lanka Tiles PLC. He has wide experience in various businesses & business management.

## **T. Igarashi**

### **Director**

A Japanese national, Mr. Igarashi is an enterprising businessman specialising in the re-structuring of unviable businesses, 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.

#### **T. Murakami**

##### **Director**

Mr. Toyohiko Murakami is the Chief Executive of Bansei Group, Japan. Mr. Murakami has over 32 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. He was appointed as the Executive Vice President in February 2006 and he was appointed the President and 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 Finance (Pvt) Ltd and Vallibel Finance PLC.

#### **S. B. Rangamuwa**

##### **Director**

Mr. Rangamuwa is an experienced professional in Management, Finance, credit and Marketing with over 24 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 a MBA from the University of Southern Queensland.

#### **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 after twenty years at the time he was the Commissioner General of Inland Revenue Department. During this period, he had organised tax seminars in the country to improve the compliance of the tax payers.

He has participated in several programs in Advanced Taxation in countries such as United Kingdom, France, Italy, Japan, Germany, Korea and Malaysia. He is a Graduate in Bachelor of Arts (2nd Class) of the University of Ceylon Peradeniya.

#### **H. N. J. Chandrasekera**

##### **Director**

Mr. Chandrasekera is a banking professional who held several responsible positions and was a Senior Corporate Management Member of the Hatton National Bank PLC, during his career spanning 35 years. He holds Membership in the Association of Professional Bankers and has undergone extensive training in banking, leadership and management both locally and at prestigious overseas institutions such as Mount Elisa Business Faculty, Melbourne University, Australia, National University of Singapore, Lloyds Bank TSB, UK, Development Bank of Philippines and AOTS, Japan.

Consequent to his retirement from HNB, Mr. Chandrasekera is engaged as a Director and Consultant to several companies in the private sector.

#### **P. L. D. N. Seneviratne**

##### **Director / Chief Executive Officer**

Mr. Dimantha Seneviratne joined Pan Asia Bank as Director/Chief Executive Officer on 1st March 2014. He counts more than 25 years of banking of which, 15 years was with the HSBC Group including several senior overseas postings covering Thailand, Bangladesh and Saudi Arabia. He has extensive exposure in Corporate Banking, Retail Banking and Wealth Management, Credit Risk Management, Operations and Market Risk, Internal Control, Investment Banking and Finance. His last three postings with HSBC Group were as Chief Risk Officer, Sri Lanka / Maldives, Bangladesh and Thailand, where he was responsible for credit growth, strategy and governance in those geographies as a member of the country leadership team.

Mr. Seneviratne holds a MBA from the Postgraduate Institute of Management, University of Sri Jayawardenapura, and BSc, from the same University. He is a Fellow of the Institute of Bankers, Sri Lanka and a Post Graduate Diploma Holder in Computer System Design from the NIBM. Mr. Seneviratne is a Past President of The Association of Professional Bankers (APB) Sri Lanka. He is a Director of Lanka Clear (Pvt) Ltd and a Director at Credit Information Bureau of Sri Lanka.

#### **N. Fernando**

##### **Company Secretary / Deputy General Manager**

Joined the Bank in 1998 as the Company Secretary. Has over 25 years of experience as an Attorney-at-Law.



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# Corporate Management



Left to right

Lalith Jayakody - Deputy General Manager - Chief Financial Officer, Chandrika Ranawaka - Assistant General Manager - Head of Corporate Banking, Jeremy De Silva - Assistant General Manager - Head of Internal Audit, Nalaka Wijayawardana - Assistant General Manager - Chief Marketing Officer, S. Umakanthan - Deputy General Manager, Dimantha Seneviratne - Director/Chief Executive Officer, Richie Dias - Deputy General Manager - Head of Treasury, Nayantha Fernando - Deputy General Manager - Company Secretary, Rohitha Amarapala - Assistant General Manager - Head of Human Resources, Kamoor Sourjah - Chief Operating Officer, Lalith Fernando - Deputy General Manager - Chief Risk Officer, Naleen Edirisinghe - Deputy General Manager - Retail and SME, Indrajith Gunasekara - Assistant General Manager - SME and Pawning, Varuni Egodage - Assistant General Manager - Head of Legal



We're driving flexibility, agility,  
business intelligence and value...

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# Corporate Management

## **Dimantha Seneviratne**

### **Director / Chief Executive Officer**

Dimantha joined Pan Asia Bank as Director / Chief Executive Officer on 1st March 2014. He counts more than 25 years of Banking of which 15 years was with the HSBC Group including several senior overseas postings. His last three postings with HSBC Group were as Chief Risk Officer, Sri Lanka and Maldives, Bangladesh and Thailand, where he was responsible for credit growth, strategy and governance in those geographies as a senior member of the country leadership team.

He holds a MBA from the Postgraduate Institute of Management University of Sri Jayawardenapura, and B.Sc from the same University. He is a Fellow of the Institute of Bankers, Sri Lanka and a Post Graduate Diploma Holder in Computer System Design from the NIBM with Distinction. He is a Past President of The Association of Professional Bankers (APB) Sri Lanka and was an executive council member for over 10 years holding senior posting. He is a Director of Lanka Clear (Pvt) Ltd and a Director at Credit Information Bureau of Sri Lanka.

## **Kamoor Sourjah**

### **Chief Operating Officer**

Kamoor has over 23 years of banking experience with 3 foreign Banks namely State Bank of India, Deutsche Bank AG and Standard Chartered Bank. Prior to joining Pan Asia Bank in 2008, he held the position of Director/ Head of Global Corporates at Standard Chartered Bank. He is an Associate Member of the Institute of Bankers (AIB) Sri Lanka, an Associate Member of the Association of Certified Chartered Accountants (ACCA) of UK and a Member of the Project Management Institute of USA with PMP status. He is also a Member

of the Chartered Institute for Securities & Investment (CISI) UK and Association of Professional Bankers Sri Lanka.

## **S. Umakanthan**

### **Deputy General Manager**

He is a versatile and pragmatic banker, counting over 33 years of experience in the Banking Industry at Operational and Tactical Management to Strategic/ Corporate Managerial levels. Holds a M.Sc in Management. 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 Jayawardenepura.

## **Lalith Fernando**

### **Deputy General Manager - Chief Risk Officer**

A Banker with over 45 years of experience, has previously been attached to ANZ Grindlays, Peoples Bank and Nations Trust Bank in Corporate Management positions. He has exposure to global best practices in banking operations and dealing with multinationals with global relationships. Prior to joining Pan Asia Bank, he held the position of Head of Credit Risk Management at Nations Trust Bank from 2005 to 2009. He has also held the positions of Head of Corporate and Chief Operating Officer at ANZ Grindlays, Head of Personal Banking/ Corporate Banking and Head of Branch Credit at Peoples Bank.

## **Richie Dias**

### **Deputy General Manager - Head of 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 Limited as Assistant General Manager - International Financial Services and prior to that Grindlays Bank

Limited as FX Dealer. He has 35 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 a MBA from University of North West, USA. He is a Member of Association of Professional Bankers of Sri Lanka.

## **Lalith Jayakody**

### **Deputy General Manager - Chief Financial Officer**

Lalith has more than 35 years experience in managing finances in commercial Banks including Peoples Bank and Sampath Bank PLC. He was the Finance Officer of Peoples Bank and has also worked as the Senior Deputy General Manager of Sampath Bank PLC. He has 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.

## **Naleen Edirisinghe**

### **Deputy General Manager - Retail and SME**

Naleen counts over 29 years banking experience 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 M.Sc in Management from the University of Sri Jayawardenepura. He is also a Fellow of the Institute of Bankers of Sri Lanka and a Fellow of the Certified Professional Managers.



#### **Nayantha Fernando**

**Deputy General Manager - Company Secretary**

Nayantha is an Attorney-at-Law by profession, with over 25 years of experience in the field. She joined the Bank in 1998 as Company Secretary.

#### **Nalaka Wijayawardana**

**Assistant General Manager - Chief Marketing Officer**

Nalaka is a marketing specialist with over 22 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.

#### **Jeremy De Silva**

**Assistant General Manager - Head of Internal Audit**

Jeremy counts over 25 years of banking experience in both local and foreign Banks. His previous work experience includes Hong Kong Shanghai Banking Corporation, ABN AMRO and National Development Bank. He is a veteran in banking operations and audit, and holds a 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 a committee member of the Association of Professional Bankers Sri Lanka.

#### **Indrajith Gunasekara**

**Assistant General Manager - SME & Pawning**

Indrajith counts over 28 years of banking experience and has a thorough knowledge and experience in all areas of Banking with special emphasis on the SME & Retail segments with Commercial Bank, Seylan Bank and Nations Trust Bank. Prior to joining Pan Asia Bank, he held senior managerial positions in SME Banking, Retail Banking and Credit Risk Management areas at Nations Trust Bank. He holds a MBA from the University of Southern Queensland Australia, a Post Graduate Diploma in Business & Finance from the Institute of Chartered Accountants of Sri Lanka, a Post Graduate Executive Diploma in Bank Management from the Institute of Bankers of Sri Lanka. He is also a Member of the Institute of Certified Management Accountants - Australia and Association of Professional Bankers of Sri Lanka.

#### **Varuni Egodage**

**Assistant General Manager - Head of Legal**

Varuni joined the Bank in 1998 and presently is the Head 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. She is also an Attorney-at-Law.

#### **Rohitha Amarapala**

**Assistant General Manager-Head of 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 the Institute of Personnel Management, Sri Lanka (IPM Sri Lanka), holds an MBA from the University of Western Sydney Australia and National Diploma in Human Resource Management. He is a Licensed Practitioner in Psychometric testing systems adopted by Thomas International. He was conferred the prestigious 'Pride of HR Profession Award' for his contribution to the HR profession at the World HRD Congress held in Mumbai, India in 2010. He is currently serving as the President of IPM Sri Lanka, the premier HR professional body in the country.

#### **Chandrika Ranawaka**

**Assistant General Manager - Head of Corporate Banking**

Chandrika counts over 21 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 10 years experience in credit analysis and managing local as well as multinational global relationships. Prior to joining Pan Asia Bank, he has worked in Union National Bank - UAE, BNP Paribas - UAE and DFCC Bank. He holds a 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.

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## Senior Management





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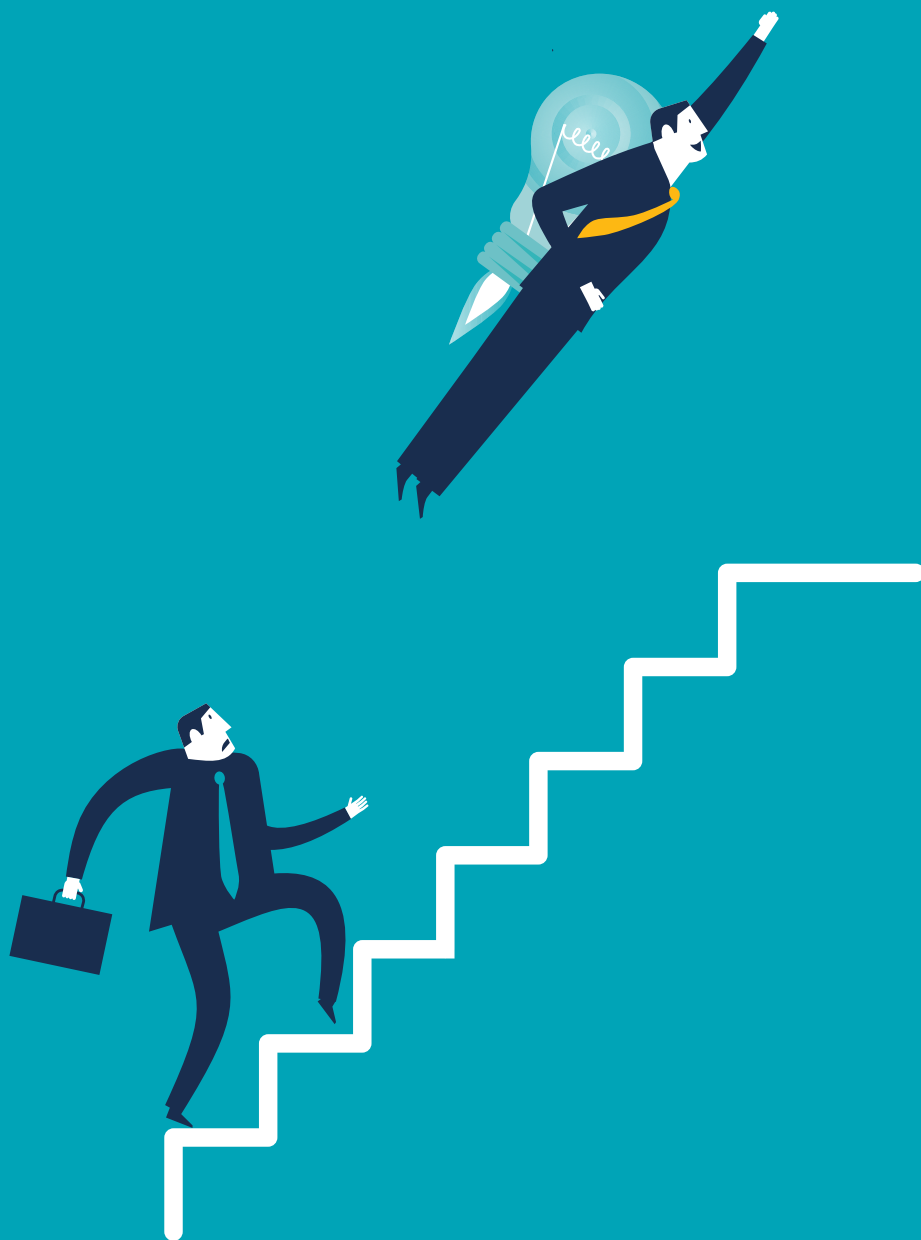
# Senior Management







- |  |  |   |
|--|--|---|
| 1. Shiyan Perera<br>Head of Leasing                              | 2. Harsha Kurukulasuriya<br>Head of Operations                   | 3. Takura Abhayasinghe<br>Head of Branch Sales                        |
| 4. Nimal Ratnayake<br>Head of Credit Control                     | 5. Siva Sivarathikan<br>Consultant - Operations Audit            | 6. Prasanna Fernando<br>Head of Institutional Liability Sales         |
| 7. Udaya Thuduwwatta<br>Head of Margin Trading                   | 8. Anil De Silva<br>Senior Manager - Branch Credit               | 9. Rajitha Silva<br>Senior Manager - Administration                   |
| 10. Thilani Peiris<br>Area Manager- Colombo South                | 11. Prakash Selvarajah<br>Senior Manager - Branch Operations     | 12. Niroshima Wijesena<br>Senior Manager - Housing Loans and Mortgage |
| 13. Umaharan Jeganathan<br>Senior Manager - Personal Credit Unit | 14. Jehan Perera<br>Senior Manager - Trade Operations            | 15. Sameera Senerath<br>Senior Manager - Central Sales                |
| 16. Thushara Suraweera<br>Senior Manager - Branch                | 17. Gamini Jayaweera<br>Senior Manager - Credit Administration   | 18. Pali Jayasekera<br>Senior Manager - Consultant                    |
| 19. Kapila Peiris<br>Senior Manager - Internal Audit             | 20. Anuradha Gamage<br>Senior Manager - Branch                   | 21. Arun Beadle<br>Area Manager- North & East                         |
| 22. Javana Atukorala<br>Senior Manager - Compliance              | 23. Milroy Perera<br>Area Manager- North Western & Central       | 24. Hiran Perera<br>Area Manager- Colombo North                       |
| 25. Chrysanthus Peiris<br>Area Manager- Southern                 | 26. Suranga Fernando<br>Senior Manager - Finance                 | 27. Renuka Kurukulasuriya<br>Senior Manager - Branch                  |
| 28. Thushari Malalgoda<br>Senior Manager - Planning and Research | 29. Chamath Atukorale<br>Senior Manager - Treasury Middle Office | 30. Renuka Premakumar<br>Senior Manager - Branch                      |
| 31. Sanjaya Weerasekera<br>Senior Manager - Credit Risk          | 32. Harsha Samaranayake<br>Senior Manager - Branch Credit        | 33. Lourdetta Wijeyanathan<br>Senior Manager - Corporate Banking      |
| 34. Aravinda Rodrigo<br>Senior Manager - Corporate Banking       | 35. Anushka Wimalasena<br>Senior Manager - Branch                | 36. Rangith Rajendran<br>Senior Manager - Branch Credit               |
| 37. Yohan Ebell<br>Area Manager- Central                         | 38. Senaka Gooneratne<br>Area Manager - Bazaar                   | Excused : Dushshantha Wijekoon<br>Senior Manager                      |



Management Discussion and Review

Understanding.  
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Pan Asia Bank

# Macro Economic Review

The macro economic conditions relating to the banking sector in 2015 could be evaluated as follows.

## Strong Rebound in Private Credit

The macro economic conditions largely bode well for the banking sector mainly because of the strong rebound in the hitherto lackluster credit growth, especially from the 2H'15, mainly as a result of the lag effect of the monetary policy transition.

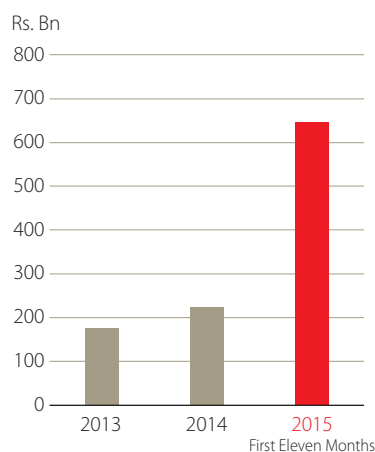
Higher private credit was driven by the strong consumer demand stimulated by the fiscal stimulus extended by way of lowering of taxes on necessities, energy price reductions, massive salary increments given to the public sector employees, subdued inflation level (but core-inflation was on the up) which led to the higher disposable income.

This was exacerbated by the further 50 basis point cut in key policy rate in April 2015.

All these factors combined reversed the slow credit growth witnessed for almost two and a half years, and immensely contributed towards expanding the loan books of the Banks.

During the first eleven months, over Rs.600 billion worth of private credit was extended again, reaching an all time high.

## Private Sector Credit Growth



Source : Central Bank of Sri Lanka

## Breaks on Credit Growth

However, due to the signs of overheating of the economy towards the latter part of the year as demonstrated in core-inflation edging up towards mid-single digit levels, the Central Bank remained cautious and started to tighten the monetary policy by raising the Statutory Reserve Ratio (SRR) by 150 basis points to 7.5% in December with effect from 16th January 2016, to rein in the excessive credit growth.

This resulted in as much as Rs. 50 billion being mopped up by the Central Bank from the banking sector and also resulted in an upward adjustment in market interest rate by 150-200 basis points in January 2016.

As a result, this is expected to result in a deceleration of the growth in credit extended to the private sector by the commercial banks, albeit with a time lag.

## Cap on Vehicle Loan-to-Value Ratio

In a bid to rein in the credit flows in to vehicle importation which is causing pressure on the currency and the Balance of Payment (BoP), the Central Bank issued directive effect from 1st December 2015 capping the vehicle financing to a maximum 70% from the hitherto prevailed 100% financing share.

This and the rising interest rates along with the other fiscal tightening measures slowed down the credit flows in to the vehicle financing market. This will have a significant impact in trade related fee income, as vehicles composed of a significant share of such incomes. The full effect will be seen from 2016 onwards.

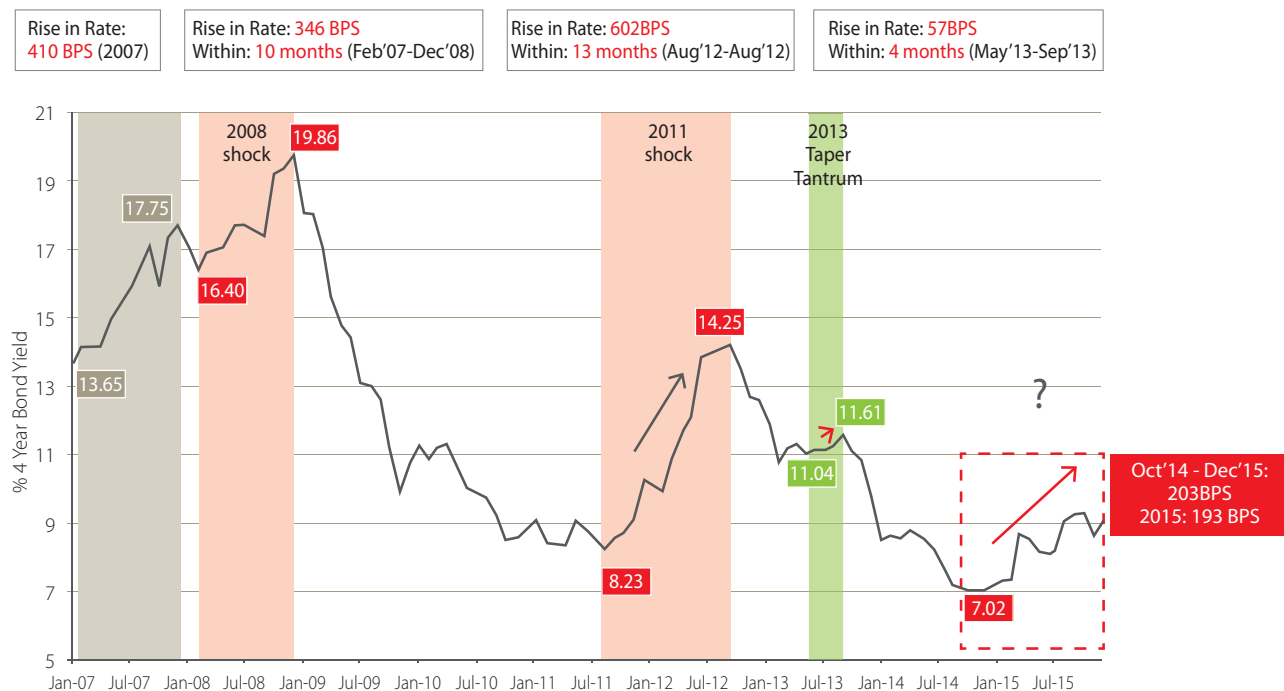
## Pressure on Interest Rates Built up

During the 2H'15, the pressure on the interest rates started to build up as shown in chart below, and the Banks started to offer higher interest rates to attract more deposits and the competition for deposits drove the interest rates higher.

Due to this upward trend seen in interest rates, some banks made heavy mark-to-market losses and realised losses on their investments in Government securities.



## Movement in Bond Yields



### Exchange Rate Weakened over 9%

Due to emerging market sell offs with the expectation of the United States Federal Reserve hiking rates before the end of the year and the expanding current account deficit in the country's external account due to higher imports, the Sri Lankan Rupee came under massive pressure and the Central Bank which hitherto defended the currency through selling of external reserves, had to float the exchange rate in September.

During August 2014 to October 2015, the Central Bank sold as much as US \$ 2.7 billion worth of reserves.

The Sri Lankan rupee weakened by over 9% against the US dollar during 2015.

This volatility enabled certain banks to make gains depending on their foreign currency positions.

### Consumption driven growth

The year saw the growth driver shifting from the hitherto prevalent construction and infrastructure to a more a consumption driven growth.

This was seen from the larger consumption driven credit granted by the banks in 2015. However, this resulted in economy overheating towards the latter part of the year with core inflation trending upwards and the credit growing at all time high levels.

### Economic policy shift

The hitherto prevalent Government led, foreign commercial borrowing financed, construction and infrastructure driven growth model was shifted to private sector led, foreign direct investment financed more sustainable growth model.

While the complete shift in the policy is yet to be seen, the Government led hard infrastructure development drive drastically slowed down.

The focus on building soft infrastructure such as human resource development came to the force.

Private Public Partnerships (PPPs) when take off could open up lending opportunities for banks.

# Financial Review

The Bank more than doubled its Return on Equity to 19.94% from 9.81% in December 2014 due to steep increase in its post-tax profits at a time when the banking sector Return on Equity was coming under pressure due to narrowing margins.

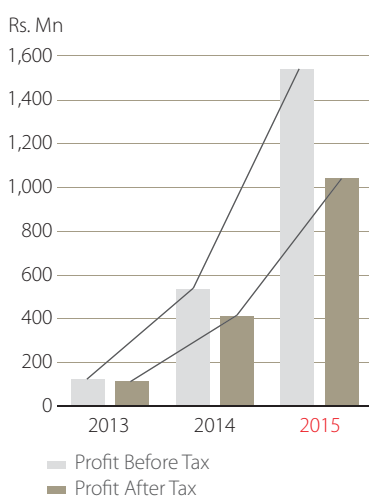
## Profitability

Among many other financial and operational achievements, Pan Asia Bank closed the year 2015 with a total post-tax profit of Rs.1.04 billion surpassing Rs.1 billion mark for the first time in the Bank's history.

This translates into a growth of 151% over the Rs.415.21 million post-tax profit the Bank made in 2014.

The Earnings per Share rose to Rs. 3.53 from Rs.1.41 a year ago.

## Pre-Tax Vs Post-Tax profits



This performance was a result of above average expansion in the Bank's Gross Loans and Receivables, growing margins due to the Bank's judicious fund management strategies and continuously challenging cost structure due to improved efficiency.

Meanwhile, the pre-tax profit grew by a staggering 186% year on year (yoy) to Rs.1.54 billion.

Meanwhile the quarterly profits too showed a strong growth throughout the year in comparison to corresponding quarters as shown below;

## Growth in Quarterly Profits

Quarter ended	2015			
	31st March	30th June	30th September	31st December
Pre-tax Profit (Rs.Mn)	270.18	365.67	455.99	450.30
YoY Growth (%)	231%	238%	192%	134%
Post-tax Profit (Rs.Mn)	176.97	273.76	300.24	289.56
YoY Growth (%)	106%	204%	197%	110%

## ROE, an Outlier in the Industry

The Bank more than doubled its Return on Equity (ROE) to 19.94% from 9.81% in December 2014 due to steep increase in its

post-tax profits at a time when the banking sector Return on Equity (ROE) was coming under pressure due to narrowing margins.

Pan Asia Bank's ROE is now among the highest in the industry.

## Core Banking Performance

### Net Interest Income

Net Interest Income (NII), the principal source of income from the Bank's fund-based operations, rose by 45% to Rs. 3.96 billion. NII contributes for over 70% of the total operating income of the Bank.

The rise in NII was mainly due to the above average growth in Gross Loans and Receivables due to strong rebound in private sector credit growth.

Meanwhile, the Bank also improved its margins further cushioning its core-banking operations.

The Net Interest Margin increased from 3.82% to 4.34% during the year due to timely re-pricing of its assets and liability portfolio to stay aligned with the changes in the key policy rates and market interest rates.

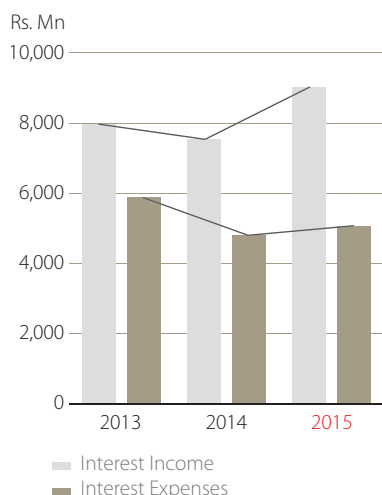
This was a significant achievement at a time when the banking sector margins were coming under pressure due to low interest rates prevailed during most part of the year.

## Net Interest Income the principal source of income from the Bank's fund-based operations, rose by 45% to Rs.3.96 billion. Net Interest Income contributes for over 70% of the total operating income of the Bank.

The Bank's interest income grew by 20% yoy to Rs. 9.04 billion while the interest expense increased marginally by 6% yoy to Rs. 5.08 billion in gross terms.

This was due to the Bank continuously channelling its funds into more remunerative areas by recalibrating its asset portfolio in general banking business and in its treasury operations for better yields.

### Interest Income Vs Interest Expenses



### Non-Interest Income

#### Net Fee and Commission Income

Due to concerted efforts by all segments of the Bank to diversify the income sources, the net fee and commission income, being the largest contributor to non interest income rose by 22% yoy to Rs. 768.03 million.

This accounted for 46% of non interest income and 14% of total operating income of the Bank for the year.

These income were mainly stemming from Credit cards, Trade, Remittances, Deposits and also from other loan products.

Fee and Commission Income from Credit Cards recorded a substantial growth of 71% to Rs. 80.1 million from Rs. 46.8 million a year ago. This reflects the growth in the demand for consumption credit in 2015.

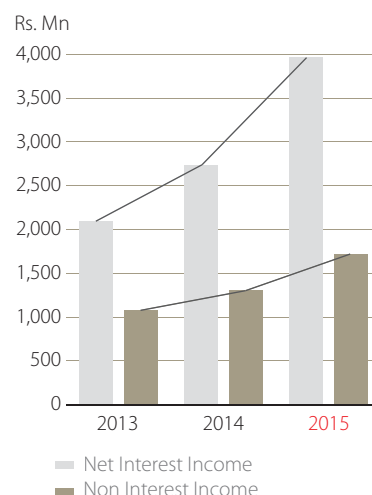
During the year, the trade related fee-based income grew by 16% to Rs. 344.18 million predominantly due to higher number of vehicle imports but with this market being slowed down, the Bank is now diversifying into many other export and import related industries to build up its trade-related income base.

The corporate banking segment in particular focused on generating higher

fee-based income through offering a package of financial solution to the corporates, to compensate for the thin margins the sector offers.

Meanwhile, during 4Q'15, the Bank strengthened its Foreign Currency Banking Unit (FCBU) with experienced leadership in the industry in order to build up the Bank's trade-finance income of which, the results will be seen in 2016.

### Net Interest Income Vs Non Interest Income



### Net Trading Gains and Other Operating Income

The Bank's Net Trading Gains consisting of realised and unrealised gains from equities, units, debt instruments and gains from currency derivatives amounted for Rs. 303.96 million in 2015 from Rs. 344.27 million a year ago.

The decline in Net Trading Gains was largely driven by the curtailment of Bank's unit trust holding during the year due to lower yields. As a consequence, the gains from unit trusts decreased by Rs. 136.26 million or 68% in 2015.

# Financial Review

Despite the above drop, the Bank's net foreign exchange gains from derivative contracts recorded a remarkable growth of Rs. 91.08 million reflecting the effectiveness of the hedging strategies adopted by the Bank during the year.

Net Trading Gains accounted for 18% of non interest income and 5% of total operating income of the Bank for the year.

Other Operating income, mainly consisting of non trading foreign exchange gains increased by 87% yoy to Rs. 544.87 million. This reflects the Bank's ability to convert the volatilities in exchange rates in to the Bank's favour.

The non interest income consisting of net fee and commission income, net trading income and other operating income grew by 30% to Rs. 1.67 billion in 2015.

## Operating Efficiency

The increase in total operating expenses comprising of personnel expenses and other operating expenses by 21% yoy to Rs 2.98 billion was much lower than the growth in operating income during the year under review.

As a result, the key efficiency measure 'the Cost-to-Income ratio' steadily improved to 52.89% from 61.03% in 2014, making gradual progress towards increasing efficiency and productivity.

This improvement is a testament of the Bank's commitment to achieving process efficiency and operational excellence.

During 2015, the Bank migrated to a new core-banking system and a treasury system' with a significant investment which increased the process and

**The Net Interest Margin increased from 3.82% to 4.34% during the year due to timely re-pricing of its assets and liability portfolio to stay aligned with the changes in the key policy rates and market interest rates.**

transaction efficiency, which in turn improved the delivery times and service quality.

During the year, the Bank mainly improved its efficiency levels through enhancing the performance of existing branch network and re-engineering of head office operations.

A Business Process Re-engineering exercise is now underway to further identify areas where the Bank could improve productivity and its results will be seen towards 2016 and beyond.

It will re-stack head-office functions and re-deploy the excess staff into lacking areas to further improve the turnaround times.

Therefore, the Bank believes the above activities will translate into further efficiency in the ensuing year by further improving the cost-to-income ratio towards industry best practice.

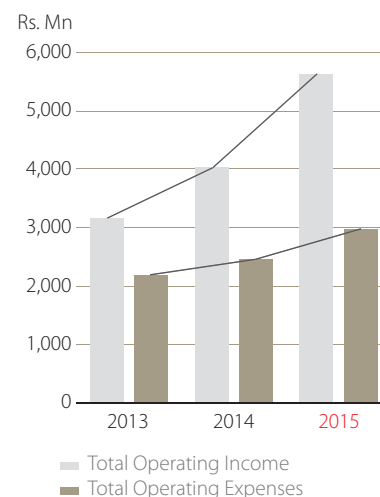
Personnel expenses rose by 29% to Rs. 1.39 billion due to the increase in headcount in key areas to business development, support expansion, annual salary increments and heavy investments in training and development. Personnel expenses accounted for 47% of the total operating expenses of the Bank.

Depreciation and amortisation expenses rose by 24% to Rs. 222.14 million predominantly due to investments in new core banking & treasury systems.

The increase in other operating expenses (excluding depreciation and amortisation) by 14% to Rs.1.37 billion was mainly driven by inflationary pressures.

Another key efficiency ratio, the Return on Assets (ROA) continued its upward trend every quarter demonstrating the Bank's continuous efficiency improvement. The Bank's ROA as at the year end stood at 1.14%.

## Total Operating Income Vs Total Operating Expenses



The key efficiency measure, the 'cost-to-income ratio' steadily improved to 52.89% from 61.03% in 2014 making gradual progress towards increasing efficiency and productivity.

### Impairment and Non Performing Loans and Advances

The impairment charges for loans and receivables rose by 18% to Rs. 791.64 million mainly due to the rise in the charge on individually significant loans.

Meanwhile the collective impairment charge declined by 89% to Rs. 30.63 million as the quality of the loan portfolio improved.

However, the Bank's rigorous recovery efforts on Non Performing Advances are expected to bring positive results in years to come.

### Taxation

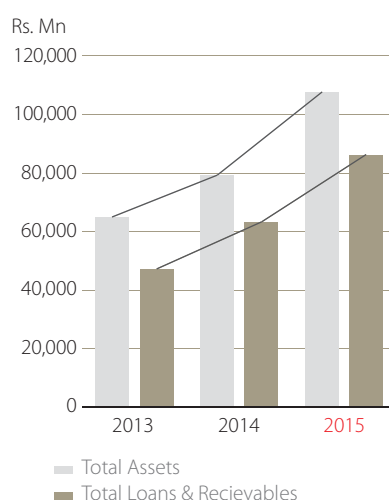
Value Added Taxes and Nation Building Taxes on Financial Services increased by 67% to Rs. 361.87million, while income tax charge rose by 307% to Rs. 501.61million, mainly driven by higher operating profits coupled with the impact of all new finance leases becoming liable for VAT and NBT on Financial Services and the full year effect of the terminal benefits becoming a part of 'employee benefits' for taxable value addition for VAT and NBT on Financial Services purposes due to a change in legislations.

The Bank's total effective tax rate maintained at 45% level in 2015 due to effective tax planning strategies adopted by the Bank despite all above challenges.

### Financial Position

#### Assets

#### Total Assets Vs Loans and Receivables



In a significant milestone, the Bank surpassed Rs.100 billion asset base in 2015, to end the year with a total balance sheet of Rs.107.78 billion.

During the year, the Bank's assets grew by 35% or Rs. 28.18 billion, to Rs.107.68 billion predominantly supported by the growth in loans and receivable.

In perspective, this translates into a 5 fold growth during the last 6 years, as the Bank had only a Rs. 21.55 billion asset base by the end of 2009.

In funding this growth, apart from the deposits which continued to be the leading source, the Bank raised Rs. 4 billion via a senior debenture issue in September while during the same month took the receipt of US \$ 10 million, the second and the final tranche of the Global Climate Partnership Fund's US \$ 20 million re-financing line for Renewable energy and energy efficiency.

### Loans and Receivables

The Bank grew its Net Loans and Receivables to customers by 40% or Rs. 23.84 billion to Rs. 84.19 billion. The percentage growth in Loans and Receivables to other customers is by far the highest recorded by any Bank for 2015. This translates in to a monthly average growth closer to Rs. 2 billion.

The Loans and Receivables to Customers accounts for 78% of the total asset base as at the year end.

The growth was driven mainly by the Retail and SME sectors followed by the Corporate Banking which also stepped up its volumes significantly.

The growth in the Retail and SME segment was mainly driven by the growth in the term loans, overdrafts, leasing, housing, consumer, other personal loans and credit cards.

### Customer Deposits

However the low interest rates that prevailed during most part of the year, and the negative real interest rates due to higher core-inflation, dampened the prospects to lure deposits in to the banking sector, as the depositors sought more lucrative investment options elsewhere.

# Financial Review

Nevertheless, the Bank grew its customer deposit base by 20% or Rs.12.8 billion to Rs. 77.70 billion, during the year due to its well thought-out deposit mobilisation strategies.

## CASA

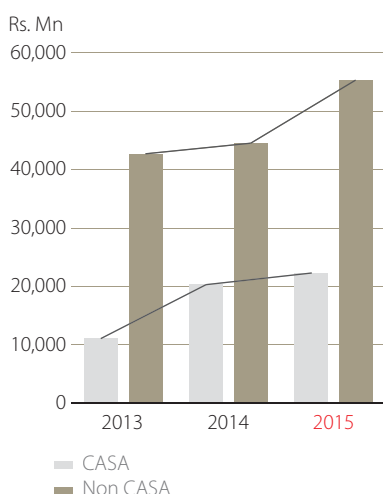
Despite the growth in the Bank's low cost, Current and Savings Account (CASA) ratio slipped to 28.01% by 31st December 2015 from 30.53% a year ago due to the rise in medium term funds which outpaced the growth in savings and current accounts.

Further, the Bank observed a slight shift in existing CASA to medium term fixed deposit accounts as the depositors looked for higher rates.

In a bid to build up the CASA base, the Bank introduced its 'Blue-Chip Money Market Savings' product targeting the corporate clientele. The account offers a floating, yet relatively higher interest rate.

CASA base of the Bank grew by 10% or Rs.1.94 billion during 2015.

## CASA Vs Non CASA Deposits



The Bank grew its Net Loans and Receivables to customers by 40% or Rs. 23.84 billion to Rs. 84.19 billion. The percentage growth in Loans and Receivables is by far the highest recorded by any Bank for 2015.

## Credit Quality

The Gross Non Performing Advance Ratio (GNPA) declined to 4.84% from 5.73% in 2014, and 8.01% in 2013. Net Non Performing Advance Ratio (NNPA) declined to 3.26% from 3.78% in 2014 and 6.49% in 2013.

This was predominantly due to recovery of some of the larger hardcore NPA's through rigorous and focused recovery efforts while keeping a closer tab on the new loans to retain them under performing status.

## Shareholder Funds and Dividends

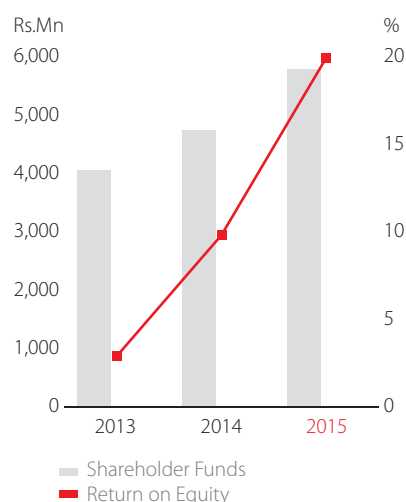
The total shareholder funds rose by 22% to Rs. 5.77 billion, from Rs. 4.73 billion a year ago.

Further, the Net Assets Value Per Share rose to Rs.19.57 from Rs.16.05 a year ago.

Key contributing factor for this growth is capitalisation of profits. However, the Board of Directors of the Bank has recommended a first and final dividend of Rs. 0.50 per share in order to distribute part of the profit among the Bank's shareholders.

The main objectives of the dividend policy of the Bank is to maximise shareholder wealth through distribution of part of the profits, retain adequate profits for business expansion, increase market capitalisation and maintain a consistent stream of dividend.

## Return on Equity Vs Shareholder Funds



## Liquidity

The Bank's liquidity is measured and evaluated at regular intervals based on stress tests in order to identify its adequacy under extreme scenarios.

While the Bank's Rupee liquidity came under bit of pressure during the year, the Bank maintained an adequate liquidity throughout the year both at the Bank level and individual unit levels, while meeting the requirements stipulated by the industry prudential regulator, through timely measures by the business units and the treasury operations.

Continuous focus on customer deposits, the aforementioned senior debenture issue and the 2nd tranche of GCPF loan were the primary sources of funding of the balance sheet growth as well as the liquidity, which was maintained above the minimum regulatory requirement.

The Statutory Liquid Asset Ratio of the Domestic Banking Unit and Foreign Currency Banking Unit stood at 24.39% and 50.63% respectively at the year end.

The Bank also assessed for Liquidity Coverage under Basel II requirements and as at the year end, our ratios were above the minimum regulatory requirements.

### Capital Adequacy

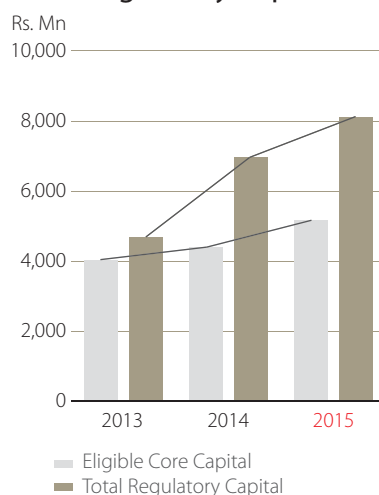
Despite maintaining the Bank's capital adequacy level above the regulatory minimums, both Core Capital and Total Capital Adequacy Ratios came under pressure due to above average expansion in the loans and advances book during the year.

At the end of the year, the Core Capital and Total Regulatory Capital stood at Rs. 5.50 billion and Rs. 8.13 billion respectively.

The retained profits continued to remain as the cushion for capital adequacy, while no instruments were issued during the year to enhance the capital position.

As a result the both Eligible Core Capital and Total Capital CAR stood at 7.82% and 12.30% respectively by the end of the year.

### Core Capital Vs Total Regulatory Capital





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# Future Outlook

The future for the banking sector during 2016 looks challenging, yet comes with opportunities.

## **Consumption Demand to Cool Down**

While consumption demand which drove most of the demand for credit in 2015 could still be at healthy levels at the start of 2016, once the adjustments - further monetary tightening, Rupee weakening and inflation - trickle in to the economy, a down turn in consumption and credit could be expected.

## **Lower Private Credit-to-GDP Demonstrates Scope for Credit Growth**

Despite the expected slowdown in demand for private credit in 2016, Sri Lanka's economy offers immense potential for the banking sector to extend its lending as the country's domestic credit to the private sector remains extremely low at 25% to GDP just above Pakistan (16%).

This is woefully low in comparison to East Asian peers which have over 100% private credit to GDP. According to the study by the World Bank in 2013/2014, Thailand had domestic credit to the private sector at 147%, China - 140%, South Korea - 139%, Singapore - 128% and Malaysia 121%.

The evidence shows that 90% of this credit is extended to the SME and micro sectors of these countries.

Meanwhile India had 52%, Maldives 35% and Bangladesh with 42%.

## **Construction Still Seen as a Growth Driver**

Meanwhile, there is no clear sector that could be identified as a growth driver which in turn could drive the demand for credit in 2016.

While there was a slowdown in construction in 2015, due to political changes, the new Government has indicated that the major infrastructure developments would continue. The continuation of these stalled projects combined with residential demand will stimulate growth in 2016.

Tourism and leisure have also been sectors which show continuous growth in post-war Sri Lanka and this could also bode well to drive the demand for banking sector credit.

## **Regional Growth Drive and MSME Based Development Agenda**

The Government's development agenda predominantly revolves around taking such development in to regions and uplifting them and this could open up opportunities for the Banks to identify under-banked segments in those regions and develop new markets.

Providing financial and other support to Micro, Small and Medium Enterprises (MSMEs) scattered across the country could also be an opportunity for the Banks to spread their services.

However, the following challenges remain;

## **Credit Growth to Slow Down**

The demand for banking sector credit from the private sector is expected to slow down with the monetary tightening by the Central Bank of Sri Lanka.

The increase in SRR requirement with effective from 16th January 2016 by 150 basis points to 7.5% has already drained liquidity and thus the lending rates have already moved up by between 150-200 basis points. This will increase the cost of servicing the existing debt while the new borrowings too will be expensive, thereby discouraging the incentive for Bank borrowings.

This can have a negative impact on the Bank's growth, asset quality and profitability.

It is expected the prime lending rates will increase by between 100-125 basis points during the year due to drain in liquidity, further rate hikes by the US Fed (a further 50-75 basis points hike is forecasted through December 2016) along with the lack of fiscal consolidation by the Government.

## **Crowding out the Private Sector**

It is expected the private sector could be crowded out by the Government sector borrowings due to the widening gap in the Government's revenues and expenses.

This is because the foreign borrowings are now coming at a higher cost and thus the Government could lean more on the local banking sector to bridge its budget deficit.



This will leave less funds for the private sector to borrow and put pressure on the interest rates to go up further.

### **Net Interest Margins (NIMs) Could be Pressurised**

While the higher interest rates offer opportunities for the Banks to increase their spread, the NIMs could come under pressure this year when there are larger fixed rate corporate borrowings in the balance sheet which do not get re-priced.

### **Dollar Borrowings Could become a Concern**

With the fall in the Rupee and the rise in interest rates in the US, servicing dollar borrowings by the Banks could add pressure on them.

While the foreign borrowing by the Government is declining, private sector foreign borrowings have been rising of which, the banking sector accounts for a lion's share.

While there will not be a sudden depreciation of the Rupee in 2016, as the built up pressure through defending the Rupee during January-August 2015 has been released with the float in September 2015, the currency may fall to Rs.150 against the US dollar.

### **Higher Effective Tax will Narrow Profit**

The budget 2016 which was passed in Parliament includes proposals to increase the corporate income tax rate

on Banks to 30% from 28% while the rates for Value Added Tax on Financial Services and Nation Building Tax on Financial Services to be increased from 11% to 12.5% and from 2% to 4% respectively. However, relevant legislations are yet to be passed in the Parliament.

These rises in taxes are expected to increase the effective tax rate of the Banks and the combined impact on the banking sector bottom-line is estimated at a whopping Rs. 7 billion.

Meanwhile, the tightened liquidity and the resulting rise in interest rates and the need to cover up the additional tax impact resulting from the higher taxes proposed in the budget, there could be a tendency by all banks to gradually move from low risk, low margin segments to the high risk, high margin segments for lending for better margins in pursuit of maintaining profits.

### **New BASEL III Regulations to Pressure Profitability**

The introduction of the Liquidity Coverage Ratio (LCR) under BASEL III Liquidity Requirements is likely to put pressure on the Bank's capacity to take high risk and improve margins.

LCR requires banks to hold high quality liquid assets in order to survive in emergent stress scenario.

Overall, the macro-economy offers the banking sector a mixed bag of

opportunities and challenges, and with correct strategy and risk management, the sector could harness the full potential of those opportunities while minimising the risks posed on the sector.

# Business Review

The year 2015 saw Pan Asia Bank making steady progress in all its areas of business due to expansionary monetary and fiscal policy conditions, effective execution of strategies, proactive and timely decision making and the motivated cadre who went an extra mile to understand the customer requirements better than competitors.

The Bank's key business segments - Corporate, Retail, SME and Treasury segments performed exceptionally well during the period under review.

It is also noteworthy that the business growth has come from all the regions which were hitherto largely tilted towards the Western Province. This was a result of the Bank strengthening its regional management in a bid to identify and serve the varying needs of customer segments in under-developed regions and in particular those who are engaged in Micro, Small and Medium Enterprises (MSMEs).

The fact that during the nine months to September 2015, the Bank's growth in its gross loans and receivables accounted for nearly 5% of the total private sector credit growth in the economy, demonstrates the significant role played by the Bank in shaping the lives of many people and small businesses in Sri Lanka.

## Retail & SME

The Retail and SME segment which accounted for 70% of the Bank's total gross loans and advances led the growth of the Bank's total assets demonstrating that the Bank is truly a consumer Bank.

During the year, the Retail and SME portfolio grew by 51% or Rs. 18 billion

to Rs. 53 billion, the highest growth recorded by the Bank.

This was well supported by the Bank's innovative product portfolio, branch support, sales force support and effective marketing and communication campaigns carried out.

Pan Asia Bank's retail product portfolio consists of true value added products which cater to all stages of life - from childhood to student and adults to senior citizens.

Some of the products in the portfolio such as credit cards, leasing, consumer loans and housing loans performed exceptionally well while the Bank's flagship product 'Sammana' introduced for the senior citizens, continued its robust growth momentum in its third consecutive year since the launch.

Pan Asia Bank's credit card portfolio grew by 135% in 2015 recording a much higher growth rate than the industry. As a result, the Bank's total outstanding credit card balance surpassed the billion rupee mark while maintaining an above industry standard quality portfolio.

In deposit mobilisation, the Retail & SME segment contributed with a lion's share of 84% of the total deposit base of the Bank, of which, fixed deposit contribution was 62%.

The segment's Current and Savings Account (CASA) base however edged down to 30% from 34% a year ago as the depositors shifted from low interest rate savings accounts to medium term Fixed Deposits which offered higher rates.

## Total Income - 2015

### Retail & SME Banking

**Rs. 7,480.59 Mn**

### Corporate Banking

**Rs. 2,005.11 Mn**

### Treasury

**Rs. 1,273.44 Mn**

Despite the Bank surpassing its deposit targets, it has been increasingly challenging for the banking sector to attract funds due to low interest rates that prevailed during most part of the year.

## Corporate Banking

Corporate Banking saw its assets growing by 28% during the year to Rs. 25.7 billion as a result of strengthening existing relationships and forging new relationships.

The new relationships were forged with a strong focus on building fee-based income, mainly through trade lines, in a bid to counter the lower margins in the segment.

The Bank's seamless approach to relationship management, where the corporate relationship management team is joined by representatives of the treasury and trade divisions, enabled the Bank to offer customised, end-to-end solutions to clients.

Meanwhile in a bid to build the CASA base in November, the Bank launched

its corporate savings account, 'Blue Chip Money Market Savings Account' which offers a floating, yet higher interest rate with sweep-in and sweep-out facility between the savings and current accounts. This product allows Corporate Customers to optimise returns on their excess liquidity.

### Green-lending drive

The Bank in September completed its US \$ 20 million re-financing facility from the European based green financier, the Global Climate Partnership Fund (GCPF) with the receipt of the balance tranche of US \$ 10 million.

The Bank is now fully geared to fund larger renewable energy projects and few such hydro power promoters are already in discussion with the Bank to secure funding. Feasibility studies have already been carried out and the Bank is on the verge of disbursing funds for the identified projects.

Pan Asia Bank which was the first to receive a funding line from the GCPF in the South East Asia, is currently in negotiations to further expand the



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# Business Review

relationship with the GCPF and other green financiers to secure similar re-financing lines. This would enable the Bank to further promote renewable energy and energy efficiency projects in a bid to create a greener and a cleaner economy.

The Bank structured Sri Lanka's first 'green asset backed securitisation' with the investment manager, Trillion Investments Limited, in October 2015 with the objective of reducing its carbon footprint. The securitisation project is worth Rs. 750 million and has a five year duration.

The focus of the project is to provide financial support for hybrid vehicles which now constitute 75% of all new vehicles imported in to the country.

The securitisation project not only demonstrates Pan Asia Bank's commitment to support green initiatives as a responsible corporate citizen but also is a step towards growing the green lending portfolio by way of designing sophisticated corporate debt instruments which will boost Sri Lanka's corporate debt market.

Deutsche Bank acted as the trustee and administrator to the issue while Ernst & Young was the financial due diligence advisor.

## Trade Finance

The income from trade finance showed an increase in 2015 predominantly due to higher number of vehicle imports in to the country which generated a substantial amount of commission income from letters of credit. However, the Bank believes that it is important to diversify its trade related income sources going forward.

## Foreign Currency Banking Unit

Meanwhile the Bank revamped its Foreign Currency Banking Unit (FCBU) in a bid to build up its foreign currency asset and liability book, generate higher non-fund incomes via diversified sources and to earn foreign exchange income.

The Bank has already rolled out the strategies to capture market share from the growing international trade in the country.

Given that increasing the contribution from fee-based income is one of the strategic priorities for the Bank, this segment will continue to receive attention going forward. The Bank expects to see the full impact of these revamping initiatives from year 2016 onward.

## New Products

### Budget Leasing

During the year, the Bank introduced many new products out of which its innovative product, 'Budget Leasing' which enables customers to reach for a vehicle of higher value while paying an affordable rental, won a global award last year for the Most Innovative Banking Product in Sri Lanka, by the London based Global Banking and Finance Review.

### Western Union Direct to Bank (D2B)

Further, the Bank extended its partnership with Western Union (WU) from the current 'Cash-to-Cash' remittance service to offer direct credit of funds to the recipient's Bank account (D2B) in order to provide convenience and capture a new market in the remittance sphere.

Pan Asia Bank is the only Bank in Sri Lanka to offer this service.

In addition, the Bank's International Remittances Unit, as part of its efforts to broaden its network of remittance partners, tied up with a leading exchange company in the UAE, Al Ansari Exchange which offers, 'Cash Express', a remittance product.

## Bancassurance

The Bank signed a Memorandum of Understanding (MoU) with LOLC Insurance Company Limited to start Bancassurance during Q4. Initially, the service will be offered in 14 branches and gradually the service will be extended to all other branches.

## Blue Chip Money Market Savings Account

In November 2015, the Bank launched the, 'Blue Chip Money Market Savings Account' designed for the Sri Lankan corporates. This product enables Corporates to park their excess funds at the highest interest rate in town with the flexibility of remitting their monies back even on the following day.

The special feature of this product is that the high savings interest rate offered under this product is determined on a weekly basis based on the prevailing inter-bank money market interest rates.

This account also comes with the 'sweep-in and sweep-out' facility between the current and the savings accounts which facilitates automatic fund transfer between the accounts to offer an optimum return to the corporate clients.

Pan Asia Bank's credit card portfolio grew by 150% compound annual growth rate during the last 3 years faster than the industry by maintaining a much higher quality portfolio than the industry.

### Treasury

The Treasury Department made a noteworthy contribution of 21% to the net operating income of the Bank in 2015 during which monetary and foreign exchange conditions remained fairly conducive.

The money market saw excess liquidity during most part of the year due to the low interest rates which bottomed-out from the start of 2H'15.

The treasury department continuously maintained an optimal mix of assets in its liquid asset portfolio which maximised the return for the Bank.

Foreign exchange rate however came under pressure mainly due to the foreign investors exiting from the Government securities market in anticipation of a United States Federal Reserve rate hike and also due to the higher imports resulted by the strong pick up in private credit which fueled consumption imports.

### Asset/Liability Management

Meanwhile the Treasury Department ensured it prudently matched the Bank's assets and liabilities in order to minimise the Bank's exposure to market risk.

The Bank successfully managed a Rs.4 billion, senior debenture issue in September, which received over Rs.5 billion subscriptions on the opening day itself.

Further, the Bank successfully negotiated the balance US \$ 10 million tranche of the GCPF's 7- year re-financing facility with the intention of promoting green projects in the country.

### Increasing Footprint and Customer Access

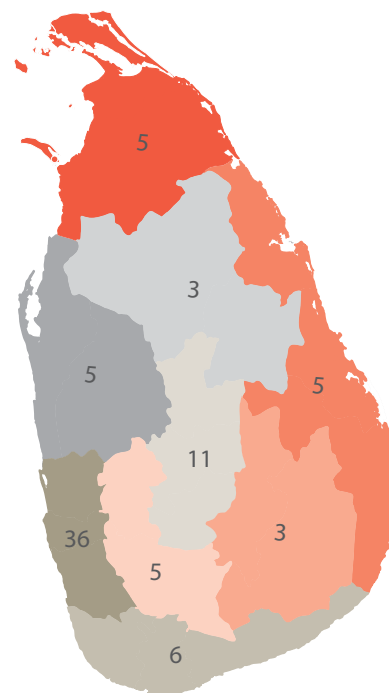
In September the Bank opened a branch in Nawala bringing the total network of branches to 79 at the year end. However, the main focus in 2015 was on increasing the profitability of the existing branches rather than opening up of new branches.

Having well understood the future of banking, Pan Asia Bank continues to maintain a balance between digital banking channels and brick-and-mortar styled banking to reach the customers. As a part of this initiative, the Bank has made plans to re-launch its Internet banking platform which will be completed during the first quarter of 2016. This will be followed by a state-of-the art mobile app which will bring all the banking needs to customers' fingertips.

### Bank's Presence in the Country

#### By Province

Western	36
Central	11
Sabaragamuwa	5
Southern	6
Uva	3
Eastern	5
North Central	3
North Western	5
Northern	5
<b>Total Branches</b>	<b>79</b>



In addition, the Bank continued to enhance its presence in the digital space via Internet banking and social media. One noteworthy achievement in this sphere was the Bank's Facebook page exceeding 150,000 fans in less

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# Business Review

than two years. The Bank also maintains a presence in other social media networks such as LinkedIn which is used to attract best talent in to the Bank. The Bank also has a 'Youtube' channel which is used to communicate about the latest products, and any other news relating to the Bank.

In the digital sphere the Bank is now shifting focus from mere customer engagement to an advanced level via Search Engine Optimisation (SEO) to generate increased number of business leads.

## Corporate Campaign

Coinciding with the Bank's 20th Anniversary, the Bank launched its corporate communication campaign in October to position the Bank as, 'The Understanding Bank'.

The positioning of the Bank leverages the Bank's forte in understanding the customers' requirements better and the ability to offer innovative products coupled with efficient customer service to meet those requirements.

## Accolades

### Business excellence recognised

In 2015, Pan Asia Bank received several awards in recognition of the Bank's exceptional performance in all spheres of the business.

At Sri Lanka's benchmark business excellence awards competition, the National Business Excellence Awards - 2015 organised by the National Chamber of Commerce, the Bank was



*Bestowed 'National Business Excellence' Award*

recognised for the progress made in multiple fronts with a Merit Award in the Banking category. Pan Asia Bank was the only private sector Bank to receive the coveted award at the 12th edition of the awards.

### Fastest Growing Commercial Bank

Pan Asia Bank, was recognised again as the 'Fastest Growing Commercial Bank in Sri Lanka 2015' by The London based Global Banking and Finance Review for the second consecutive year.

This accolade which recognises innovations, achievements, strategy, progressive and inspirational changes within the global financial community, considers companies of all sizes, prominent in particular areas of expertise and excellence within the financial world.

### Most Innovative Banking Product

In addition, Pan Asia Bank's innovative leasing product 'Budget Leasing', which enables customers to reach for a vehicle of higher value while paying an affordable rental, was awarded the 'Most Innovative Banking Product in Sri Lanka - 2015', by the Global Banking & Finance Review.



# 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 logo



## Savings Accounts

Higher returns with unlimited withdrawals

**CHAMPION**  
SAVER

**Savings Account**

- An attractive high interest rate
- Freedom to withdraw money any number of times while receiving interest
- Ability to access money from any ATM carrying the VISA logo



## Children's Savings Accounts

Empower your child's future

- Daskam - An additional 10% deposit on top of each and every deposit
- Mithuru - Attractive gifts on the account balance



## Fixed Deposits

Enhanced returns on your deposits

- Attractive interest rates
- Guaranteed safety for deposits
- A range of maturity periods to choose from



## Prime

A special banking services package for discerning customers



- Personalised and specialised service
- A dedicated service support team



## Sammana

Special loan for retired government servants and CBSL pensioners

**Sammana**

- Obtain loans of up to Rs.1,000,000/-
- Repayment periods up to 7 years
- Ability to repay until 70 years of age
- A special loan protection policy



# Key Product Offerings



## Education Loans

Unleash the power of knowledge



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



## Housing 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
- Ability to choose between variable or fixed (05 years) interest rates
- Meet your purpose of renovation, purchase of land, investment or settlement of an existing Housing Loan

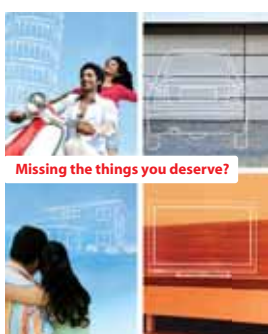


## Solar Loans

Special loan scheme to purchase domestic solar energy systems



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



## Consumer Loans

Get what you deserve, now.

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



## Pawning

Highest value for your Gold

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



## Budget+ Leasing

Get your dream vehicle



- Lowest Lease rentals that enhance customer affordability
- Minimum documentation
- Doorstep Service
- For professionals and salaried employees



## SME Credit Facilities

Help your business thrive

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



## Western Union

The easiest way to receive money from abroad



- Receive money within minutes from anywhere across the world
- Available at all branches island wide



## Credit Cards

Amazing savings on your interest charges

- Lowest interest rate of 19.75%
- Balance transfers at a low interest rate of 15.75%
- Ability to convert transactions to installment payment plans
- No joining fees or hidden charges



## Safety Lockers

Exceptional security for your valuables

- Maximum security for your valuables
- Available in 3 sizes



## Blue Chip Money Market Savings Account

Higher returns on your company funds

- Link with current account via sweep facility
- Higher interest rate
- Only for corporate clients



## Suwasavi

A One Year Fixed Deposit with a Free Family Medical Insurance



- High returns and maximum security for your deposit
- A free Medical Insurance cover for your family
- Ability to include your parents in your Medical Insurance

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# Corporate Social Responsibility

At Pan Asia Bank, we clearly understand that as a successful business organisation, we have a strong obligation and a responsibility to ensure the sustainability of the society we serve and operate in.

Accordingly, we make every effort to ensure, that CSR perspective is given due consideration in every business decision we make.

Another notable aspect of Pan Asia Bank's CSR programs is that we always strive to be hands on in every project we do. We achieve this by giving the opportunity to each and every team member of the Bank, to participate in our CSR activities wherever possible, for we believe that CSR is to be embraced as a fulfilling individual experience emanating from genuine interest, to improve the living conditions of fellow citizens and the world we live in.

In line with the above approach, this year too, we focused our CSR initiatives on providing lasting solutions to burning issues of some of the neediest segments of the society.

## CSR Programmes

### Health & Welfare

Guided by our aforementioned approach to CSR activities, we took the initiative to build a water purification plant in Thanthirimale, a village that is battling Chronic Kidney Disease (CKD).

This is an extension of the project we jointly carried out in 2014 with 'Manusath Derana' program coordinated by Derana Powerhouse Limited which conducted a health camp where over 1,000 people in Girandurukotte were diagnosed for CKD.



*At the initialisation of the Water Purification Project in the remote village, Thanthirimale*

Thanthirimale, is a village located in Mahavilachchiya Divisional Secretariat in Anuradhapura District, which has been severely affected by Chronic Kidney Disease (CKD), which is believed to be caused by consumption of contaminated water. This village has a population of approximately 1,500 out of which more than 80 are already diagnosed with kidney disease while it is likely that there are many more that are affected but are not aware of it.

As it is believed that the main reason for CKD is lack of clean water, Pan Asia Bank as a responsible corporate citizen came forward and built this water purification plant which would provide a sustainable solution to the clean drinking water problem of Thanthirimale.

This project consisted of a water purification plant that uses the Reverse Osmosis (RO) technology to purify the



*At the handing over of the Water Purification Project in the remote village, Thanthirimale*



water with a capacity to purify 10,000 litres of water per day.

In addition, multiple distribution units with a capacity of 1,000 litres each, were constructed in 10 strategic locations across the village to distribute the clean water. The clean water will be supplied to the distribution units using a special water bowser which was also donated by Pan Asia Bank as part of the project.

A noteworthy aspect of this project is that the toxic material separated from the contaminated water during the purification process are geo cycled using advanced technology instead of releasing them to the environment again.

This facility was declared open on 16th November 2015 and handed over to 'Saliyamala', a community based organisation of Thanthirimala for ongoing management.

## Education

In addition to the handing over of the water purification project, our staff members conducted another CSR activity by helping improve the educational facilities in the Sri Vimalagnana School in the same village.

Under this project, staff members donated computers, cupboards, water storage tanks, books and stationery to the school to improve its library and sanitation facilities and to provide assistance to over 400 needy students who are receiving education from grades 1-13 at the school.



*At 'Mith Sevana', a placed for differently-abled women located in Bellanthara*

In another CSR initiative, Pan Asia Bank IT department organised a charity program with a view to celebrate Christmas in a meaningful manner by helping a needy and much overlooked group of people in the society.

Accordingly they decided to visit 'Mith Sevana', a place for differently-abled women located in Bellanthara (Dehiwala) on 26th December and spend the day with the residents,

providing the care and attention they needed and deserved.

Our staff members also provided refreshments and lunch to around 70 residents at Mith Sevana and also provided them with entertainment with a musical extravaganza followed by presents given by Santa.



*At Sri Vimalagnana School in Thanthirimala*

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# Human Capital

## Employees

The year 2015 saw the Bank making significant strides in its human resources front continuing from the measures taken in 2014. Pan Asia Bank considers its staff as the most valued asset and most crucial element in delivering the Bank's brand promise of, 'The Understanding Bank' in Sri Lanka.

The primary objectives of the human resources department in 2015 was to;

- Build and maintain a talent pool which could drive the Bank towards achieving its objectives and goals
- Aligning employee behaviour to the corporate values and brand promise
- Reduce the staff attrition and build a contended workforce

The following measures were taken during the year to achieve the above objectives.

- Build an internal talent pool, succession planning and a new generation of workforce
- Increased focus and investment on training & development
- Positive industrial relations via effective consultation
- Increased employee engagement activities

### 1. Build an internal talent pool

The Bank reassured its policy of internally mobilising resources by enabling its employees to embark on new career openings by firstly making these opportunities available to its internal cadre before opening up for the external candidates. The Bank looked for outside

talent only when it could not find the suitable candidates from within.

While this policy enables the Bank to optimise its existing resources, it also provided an ideal opportunity for employees to enhance their skills and knowledge by way of expanding their exposure to various areas of the Bank which will supplement effective career development.

This also demonstrates the Bank's attempt to enhance efficiency and productivity levels by way of re-deploying excess resources in to areas where the need prevails.

Further, the Bank undertook a Business Process Re-engineering program to re-stack its head office functions, re-deploy the staff in a more productive manner and thereby increase efficiency levels.

Nevertheless, the Bank increased its cadre by 118 numbers during the year; thereby, increasing its overall employment strength up to 1,420 at the year end.

### Youngest talent pool in the industry

Pan Asia Bank is in possession of the youngest talent pool in the industry as over 62.85% of its employees are 30 years and below. The cadre below the age of 35 years is 79.23% and age below 40 years consists of 87.57% of the total cadre.

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

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.

Meanwhile, the Bank also capitalised on the emerging demographic trend of the baby boomers employed well past their retirement age due to their longevity and tacit knowledge acquired through their valuable experience in the industry. The Bank thus took many of the experienced retired bankers on board to lead certain key areas of the Bank.

### Planning for succession and building the talent pool

Succession planning and building a future workforce has been on top in the agenda of the Bank's human resource plan as the Bank is keen on developing its next layer of leaders.

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

The Bank attracts the best talent from the market through a rigorous recruitment and selection process which will focus on developing them through on-the-job trainings and formal class room trainings.

Besides, the Bank's management trainee programme 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 into the permanent cadre.

Year 2015 saw a team of management trainees being trained and working towards completing the program to take up permanent positions in key areas of the Bank, in line with their competence.

Meanwhile, the Bank opened up for a large number of internship programmes and during the year, there were as many as 22 trainees representing local university system and professional institutions who received valued training which increased their marketability in the industry.

The best performers were absorbed in to the permanent cadre opening up a future career with the Bank.

## 2. Increased focus and investment on training & development

The Bank firmly believes that investing in continuous development of our employees is essential for the progress and sustainability of the Bank.

A competent staff member will be successful in providing a positive banking experience to our customers. Hence, training and development takes a systematic approach in identifying, developing and deploying training initiatives in line with the Bank's goals and mission.

Training and development programmes held in 2015 mainly concentrated on initiatives focused on achieving bank wide service excellence.

### Bank-wide customer service training

A systematic and a vigorous training program on customer service was completed covering all employees of the Bank, including the corporate

Pan Asia Bank is in possession of the youngest talent pool in the industry as over 62.85% of its employees are 30 years and below.

management as the Bank believes competitive advantage can only be generated through service excellence in this fiercely competitive market.

The project commenced with a comprehensive service audit, findings of which were utilised to design and deploy training to staff members. Further to ensure the project to be a sustainable learning initiative Standard Operating Procedures (SOPs) were developed and service levels were established at each customer touch point across all branch and functional levels.

### Train-the-trainer program

Meanwhile, in line with the above program, the Bank also trained selected employees from each department and

branch with the objective of ensuring the sustainability of the set standards in service quality levels.

During the year, the Bank conducted two such train-the-trainer programmes consisting of two batches, who now will impart their knowledge to their colleagues in their respective departments or branches and will monitor the performance against the set standards for better control and continuous improvement.

As the final phase service audits will be carried out to monitor and maintain service levels.



*At the Customer Service Training*

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# Human Capital

During the year the Bank increased its total training hours by 16% to 46,770 hours of which internal training spanned across 40,292 hours while the external training was conducted over 6,478 hours.

As a result of such efforts, in 2015, the Bank trained as many as 50 internal trainers making its internal trainer pool stronger which will not merely reduce the dependency on external trainers but also will develop a regiment of trainers who understands the Bank's training requirements better.

Training program focusing on enhancing the knowledge and skills of front office staff at branches on specialised areas and functions, were conducted as this has a direct impact to the business and achieving service excellence.

Training programs are focused on areas such as branch operations, credit, compliance, pawning and on Banks products and general branch functions as teller training etc.

To ensure effectiveness of the training program, the Bank conducted assessments for selected program on a mandatory basis via an examination format and a pass mark is allocated to maintain the program and knowledge standards. Certificates are awarded to staff members who are competent in passing the post workshop examination.

We also have taken proactive initiatives to match the staff knowledge levels and training programs are categorised into basic and advance levels, based on the recommendation.

The Bank increased its total training hours by 16% to 46,770 hours of which internal training spanned across 40,292 hours while the external training was conducted over 6,478 hours during the year.

## Foreign Training

One of the key highlights of this year has been the opportunities for foreign training extended to staff members who performed exceptionally well in their respective areas. The training and development unit has established strong ties with renowned universities and training institutes in local and overseas to meet the business training requirements.

As one of the key solutions, the 'Aspire' Management Trainee program was introduced and the second batch for 2015 is currently making progress. This programme focuses on attracting the best graduates in the market to groom them as potential future leaders who will take up leadership positions within a period of 5 years.

Further, as a secondary initiative we have ensured that through a comprehensive Management Development Program (MDP), competent and performing employees are recognised and developed to meet this requirement.



*Employee Development*



## Guest Lectures

In order to increase staff engagement, the Training and Development Unit introduced a guest lecture series, where renowned and popular personalities in Sri Lanka were invited for short lectures to guide staff members through different disciplines of life.

The initiative not only aims to develop career aspirations of staff members but also to enrich their personal lives.

List of guest speakers who contributions over the year are given below.

<b>Teamwork and Motivation in Critical Times</b>	Mr. Aravinda De Silva Former, Sri Lankan Cricketer
<b>How To Fast Track Your Career Growth</b>	Mr. Niranjana De Silva Former CEO, Metropolitan Computers
<b>Work Life Balance and Way Forward</b>	Ms. Anoja Weerasinghe Former Actress, Chairperson Abhina Academy
<b>Unleashing Immense Power Sleeping Within You</b>	Dr. Asoka Jinadasa Corporate Trainer, Former Chairman of the Entrust Group
<b>Discover the Amazing Power of Personality</b>	Ms. Nayana Karunaratne – CEO, Image Consultants & Nayana Salon
<b>Becoming a Better Parent by Knowing Child Psychology</b>	Ms. Jayamini Samarathunga Chairperson, Mind Designs (Pvt) Ltd

Apart from the above, an exclusive stress management program series was organised with the aim to assist staff members to understand and identify themselves better, enabling them to manage work life stress using positive and healthy coping strategies combined with Neuro Linguistic Programme techniques.

The primary objective of the program was to ensure that we increase work productivity and decrease stress levels of staff members to maintain a quality work life balance.

Coaching was also introduced as a staff development tool during 2015.

A scientific approach was adopted by performing psychometric tests and in-depth one-to-one discussion with the selected staff members to gauge the personality and competency gaps.

Coaching sessions were then developed, scheduled and the progress was continuously monitored by the unit and the respective manager. This initiative has enabled the Bank to increase the productivity levels of the staff members and to increase their performance levels.

During the second half of the year, rigorous training was provided to all sales staff of the Bank with the objective of increasing the sales numbers and to reduce attrition in the sales force.

The project commenced by providing fundamental sales training after which an advanced sales workshop was conducted. Further to seal the learning and to build team work within the team, all sales staff members were taken through a Team Work Development Program (TWDP).

Considering the immense improvement and effectiveness of the TWDP, delivery

was extended across the rest of the units and the departments.

An exclusive leadership and teamwork building program named 'Beauty of Diversity' was designed and deployed for the senior management team of the Bank. The programme was a two day residential workshop held in MIMT Thulhiriya.

Bank's Quiz Teams were formed with the initiative of the Training and Development unit. Significant improvement by the Bank Quiz teams was witnessed at the Interbank Quiz organised by the Clearing Association of Sri Lanka and Trade Finance Quiz organised by the Trade Finance Association of Sri Lanka.

Product Awareness Campaign was initiated with the intention of increasing the product knowledge of staff members across the branch network. To make the campaign more forceful study packs were issued on a weekly basis, and pre-identified staff members at the branches were assigned to deliver presentations based on the product information pack daily during the morning meetings.

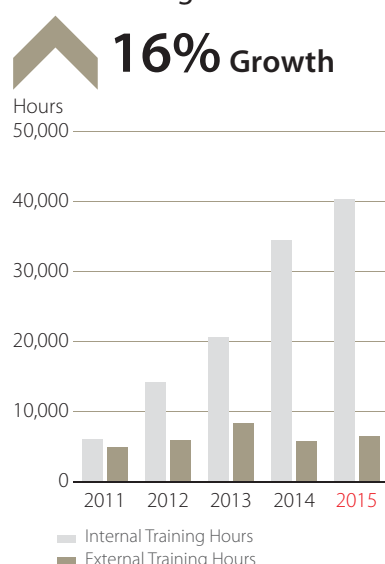
Independent panel of senior staff were assigned to assess the branches by randomly calling each branch to check awareness level of each product and marks were awarded and Branches were ranked accordingly.

A significant achievement in the area of Training and Development for the year was winning the Silver Category - People Development Award 2015 awarded by the Sri Lanka Institute of Training and Development. This is indeed a clear indication and recognition of the continuous development initiatives taken by the Bank during the year.

# Human Capital

Training & Development	2011	2012	2013	2014	2015
Internal Training Hours	6,074	14,265	20,565	34,523	40,292
External Training Hours	4,899	5,909	8,390	5,712	6,478
Total Training Hours	10,973	20,174	28,955	40,235	46,770
Total Training Growth% (yoy)		84%	44%	39%	16%
Internal Training Growth% (yoy)		135%	44%	68%	17%
External Training Growth% (yoy)		21%	42%	(32%)	13%

## Total Training Hours



In fact, all these training programs were designed as a part of coherent strategy to make all staff members ready to deliver the best service at all times prior to positioning Pan Asia Bank as 'The Understanding Bank' in Sri Lanka.

### 3. Positive industrial relations via effective consultation

Pan Asia Bank has developed healthy and proactive industrial relations between the management and the employees through its Joint Consultative Committee (JCC).

The JCC meets every quarter and provides a democratic platform for employee

representatives to voice out their concerns and obtain direct feedback from the management.

Employee representatives are nominated from their respective departments and branches with no interference from the management and thus ensure the highest level of democracy in the selection of the employee representatives to the JCC.

In 2015 the JCC met three times making a valuable contribution towards fostering and furthering employee and industrial relations over the year.

During 4th Quarter of 2015, the JCC saw its new employee representatives being selected for the next twelve months.

Further to the JCC, the new practice of 'Coffee with CEO' was introduced in the year 2015. Having held a couple of such meetings throughout the year and identifying the significantly positive effect they have on employee and industrial relations at the Bank, it is decided to hold a 'Coffee with CEO' meeting once every two months from 2016 onwards.

Pan Asia Bank's positive and healthy industrial relations fostered and maintained via the Joint Consultative Council and Coffee with CEO can be considered a landmark not just in the industry but also in the whole of the corporate sector in the country.

### 4. Staff Engagement Activities

Staff engagement activities during 2015 reached new heights with many events added in to the Bank's events calendar.

#### Quiz and New Year Celebrations

"Pan Asia Bank Intellectuals" the inter branch/department quiz competition followed by Avurudu Celebrations was held in April. The event was immensely successful with the overwhelming



Pan Asia Bank Intellectuals

participation of 93 teams and nearly 650 staff members. It was a unique occasion at which the intellectual competition was followed by the New Year celebrations which proved to be very effective in employee engagement and was enjoyed by all.

### Vesak Lantern Competition

Each year our Human Resources Department together with the Sports Club organise the Vesak Lantern Competition in keeping with National traditions and festivities. This year also the event was a huge success and it provided an opportunity for staff to work together voluntarily to display their creativity and engage in a friendly competition.

### Poson Bana Sermon

In keeping with its tradition the Bank organised the annual Poson Bana sermon with the participation of a large number of staff from Head Office and branches. Refreshments were served afterwards providing an ideal opportunity for staff to gather and interact in a relaxed frame of mind.

### Newsletter 'Pan Asia Connect'

"Pan Asia Connect" the Bank's newsletter is an effective communications tool which was introduced for the first time this year. Three editions of the Newsletter were published throughout the year and has become an effective and productive tool which has improved communications within the Bank and transmits information and news amongst all levels of staff within the Bank.

### Talent Show

For the first time in the Bank's history of 20 years a programme was organised to showcase the diverse talents of our own



*Long – Standing Staff Members*

staff. The show was a great success with the participation of over 35 employees and attendance at the show exceeding 450 staff and their families.

### Blood Donation Campaign

The annual blood donation campaign was organised at the Head Office in partnership with the National Blood Transfusion Service. The campaign was immensely successful with over 60 donors representing Management and staff.

### Seasonal Fairs in April and December

The Seasonal Fairs were held in April and December 2015 providing many trade stalls marketing their goods to the staff at special discounted rates. The fairs are greatly appreciated and looked forward to by the staff.

### Long Service Awards

Employees who have served more than 15 and 20 years consecutively were recognised at the Long Service



*Pan Asia Got Talent*



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# Human Capital



*Pan Asia Bank Dinner Dance - 2015*

Awards Ceremony held on 27th October 2015. The recipients were awarded with tokens and certificates to recognise their valuable contribution to the Bank.

## 20th Anniversary Celebrations

An all night Pirith sermon followed by an almsgiving was held in the Head Office on 26th and 27th October 2015 to commemorate the Bank's 20th Anniversary. Hindu, Catholic and Islamic ceremonies were also held during this period to mark the 20th anniversary of the Bank.

## Dinner Dance

The Pan Asia Bank Dinner Dance 2015 was held this year after a lapse of 2 years and as expected and looked forward to; it was an immense success with the participation of over 650 staff and their spouses.

## Christmas Carols

The Annual Christmas Carol Service was presented by the Bank's choristers depicting the nativity story in song and video. The service held at the Kollupitiya

Branch was attended by many staff members.

## Musical Show to Raise Funds

"Marian's Unplugged" the musical show was organised to raise funds for the many employee events organised by the Pan Asia Bank Sports Club. This fund raiser spearheaded by the Sports Club and supported by all staff and Management was a great success.

## Kiddies Party

The Kiddies Christmas Party organised by Pan Asia Bank Sports Club is an annual event look forward to by staff and their children of all ages. This year's Kiddies party held at the Fingara Club was attended by over 500 staff, their children and families. There were many exciting events such as fancy dress parade, games, cartoon characters and the arrival of Santa to decorate this year's Christmas Party.

## People Development recognised

All these progresses made in the Bank's human resources front came to a culmination as they were all recognised at the end of the year by the Sri Lanka Institute of Training and Development (SLITAD) at its People Development Awards - 2015.

The Bank's people development practices were recognised with a 'Silver award' at the SLITAD's People Development Award - 2015 which was held for the third consecutive year.

Pan Asia Bank was the only Bank in the country to bag the coveted award for the year 2015.



*SLITAD People Development Awards - 2015*

# 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. By aligning the risk management function to which the shareholders consider vital to success of the banking business, the shareholders are also assured that which they value is protected. Based on the overall strategy and three 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.
- Continuous adherence to regulatory guidelines and management effort to adapt to the dynamic market environment with appropriate risk assessments on an ongoing basis.
- Risk based pricing for Bank's products and services.
- 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.



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# Risk Management

- 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 the Bank's 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 programs.

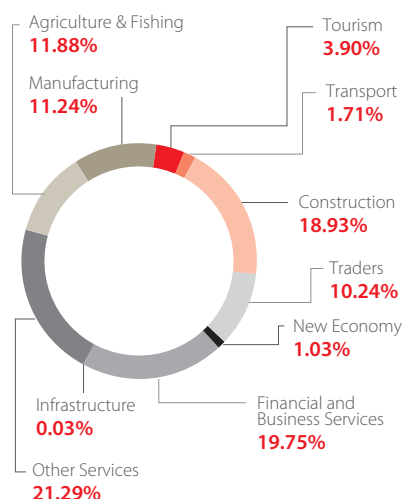
## Credit Risk

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, letters of comfort, 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:

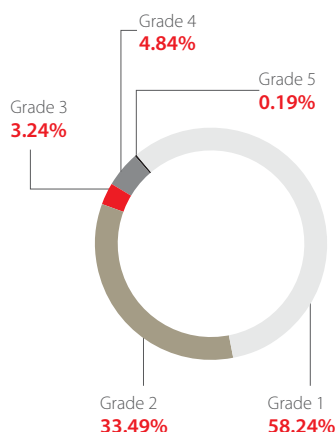
- Credit risk management organisation structure incorporating a Credit Risk Management Unit reporting to Chief Risk Officer (CRO) who in turn reports to the Board Integrated Risk Management Committee.
- Written policies on credit granting and procedure: Bank - wide risk management, Credit Risk management, loan review mechanism and review of such policies on a yearly basis.
- Instructions and guidance to employees in credit chain on annual/ 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.
- Credit Control Unit 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.
- 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 judgmental capabilities.
- Assignment of borrower risk rating for all general credit facilities.
- Risk based pricing: When a borrower's credit risk increases, 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 retail and standalone facilities.
- Established independent Credit Administration Unit to ensure accuracy and maintenance of security documentation of credit facilities and limit setting.

## Sector wise Concentration

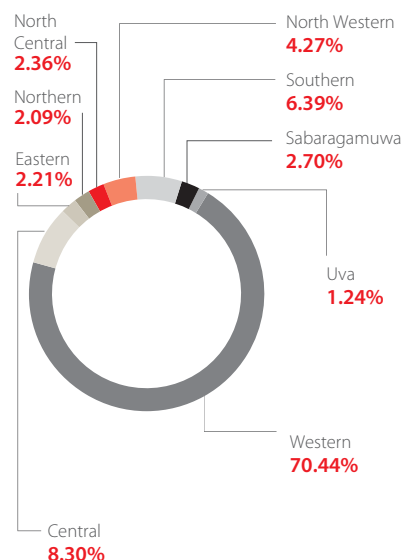


## Risk Rating wise Concentration

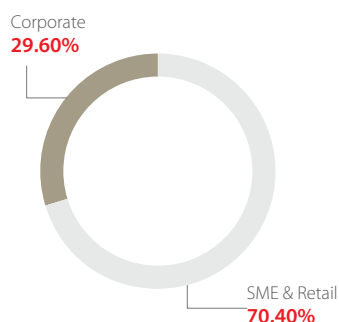


- Established credit risk limits for risk rating and concentration on industry and geography.
- Independent loan reviews carried out by the Credit Risk Department by way of pre and post disbursement examinations of credit papers in order to ensure the quality of the loan book.
- Impairment on the potential 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.

## Geographical Concentration



## Segment wise Concentration



### 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

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.



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# Risk Management

## Market Risk

Market risk is the risk associated with movements in market factors, including foreign exchange rates, interest rates, equity prices and commodity prices will have on the Bank's income or the fair 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 main 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 whilst the non trading activities relating to market risks are managed through the Assets and Liabilities Committee.

The Board Integrated Risk Management Committee (BIRMC) is responsible for policies and other standards for the control of market risk. It approves the limits within delegated authorities and monitors exposures against the limits the Bank has identified. 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)

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

- Historical simulation
- Monte Carlo simulation
- Parametric simulation

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 day, one week and 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/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). 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 Planning Department and Treasury Middle Office.

## Treasury Risk Assessment Committee

The Treasury Risk Management Committee focuses on strengthening the risk management process with clear responsibilities. The Committee

is responsible for and accountable to the Board Integrated Risk Management Committee (BIRMC). The Committee recommends appropriate action to improve the Treasury Risk Management Policies/Procedures based on Key Risk Indicators.

The Committee consists of Head of Treasury, Chief Financial Officer, Chief Risk Officer, Manager-Treasury Settlements, and Senior Manager-Treasury Middle Office. The committee shall work closely with the Board Integrated Risk Management Committee and senior management and make recommendations on behalf of BIRMC within the frame work of authority and responsibilities assigned to the committee.

### Treasury Middle Office

Market Risk management function which is separate from the Treasury is monitored by the independent Treasury Middle Office which consist of highly qualified 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 such as net open position limit.
- Monitoring activities prescribed by Central Bank 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 including detail checks on transactions such as performing sanity checks in order to avoid adjusted trading.

The Board Integrated Risk Management Committee (BIRMC) discusses in detail the key risk goals in relation to market risk at each BIRMC meeting.

During the year, the Bank successfully migrated to 'Finacle Treasury' system which has helped in more detailed monitoring of treasury activities. Also 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 stress testing policy. In addition, Value-at-Risk (VaR) computations are performed by Treasury Middle Office on a monthly basis.

The Bank will continue to strengthen its Middle Office function in 2016 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 that 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 Banking Corporation PLC. 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

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# Risk Management

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

- **Brand Image of the Bank**

Better Operational Risk Management will enhance and improve the Bank's Credit 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 of the Bank for operational risk management. In this regard the Bank is now working towards satisfying the local regulator on the criteria required to move in to the Standardised approach in calculating operational risk.

- The Bank's Operational Risk Management practices are subject to independent review by internal and external auditors.

- The Bank has a separate 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 strengthen the operational risk management process with clear responsibilities, an Operational Risk Management 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 Strategy

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 cause, remedial actions required 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 operations related departments on Operational Risk Management Framework.
- Risk and Controls Assessments (RCA) are performed on new and existing products to minimise any losses that may be faced on identified risks.
- Risk and Control Assessments (RCA) are performed on 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 losses through adequate monitoring, follow-up and utilisation of insurance cover.

### 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 the Insurance 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 department 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 annually and Disaster Recovery Drills are conducted once in six months by relevant departments to test the effectiveness of BCP.

### Due Diligence Tests on Activities Outsourced

In the provision of Banking services, the Bank outsources service providers to obtain services for activities directly related to the financial services and core banking activities, 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 an Outsourcing Policy approved by the Board of Directors which clearly stipulates internal controls and due diligence in obtaining outsourced services.

A Risk and Control Assessment (RCA) is conducted by the Operational Risk Management Unit on the finalised procedure of the outsourced activity to address the risks relevant to the particular outsourced activity and ensure adequate controls are in place to mitigate any future losses.

### Information Security

The Bank recognises that information is a critical asset and that 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

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# Risk Management

Security Office and hired an Information Security Officer (ISO) for the purpose of building an IT Security Program for the Pan Asia Bank and in meeting regulatory requirements.

The Information Security Officer has initiated the implementation of information security governance standards such as Central Bank governed Baseline Security Standard and Payment Card industry Data Security Standard (PCI DSS) which will utilise a methodology that establishes information security requirements of the Bank.

PCI DSS implementation stands out as a key information security initiative since Bank's envision to build a digital banking platform. PCI DSS provides the ideal framework to protect not only payment card holder data but also all other critical business data which is vital for Banks operations.

## 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 sort of 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. During the year, the Bank has re-launched its tag line as 'The Understanding Bank' and values of this slogan have been cascaded to staff and each customer touch point in the business process.

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

## Reputation Risk

Reputational risk arises from damage to the Bank's image among stakeholders due to adverse publicity with regard to business practices and / or management and it could result in loss of revenue or 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 measure will be adopted if the Bank wants to penetrate into unknown territories.
- Risk monitoring tools on risk to be developed with novel methodological ways to suit the future requirement of the business. Going forward the Bank will implement a mechanism 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 programs 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.

### Trends in Key Indicators

As at	31st December 2015	31st December 2014
Net Loans to Total Assets	78.11%	75.81%
Loans to Customer Deposits	98.79%	85.30%
Liquid Assets to Short-term Liabilities	1.98	6.58
Large Liabilities to Earning Assets	0.55	0.61
Purchased Funds to Total Assets	82.81%	85.21%
Commitments to Total Loans	7.68%	7.81%





Governance

Ethical.  
Transparent.  
Accountable.

Believe

it

Pan Asia Bank

# 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 Sub - Committees

The following Board sub 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 102 to 103.

Board Integrated Risk Management Committee - Page 104.

Board Human Resources and Remuneration Committee - Page 105.

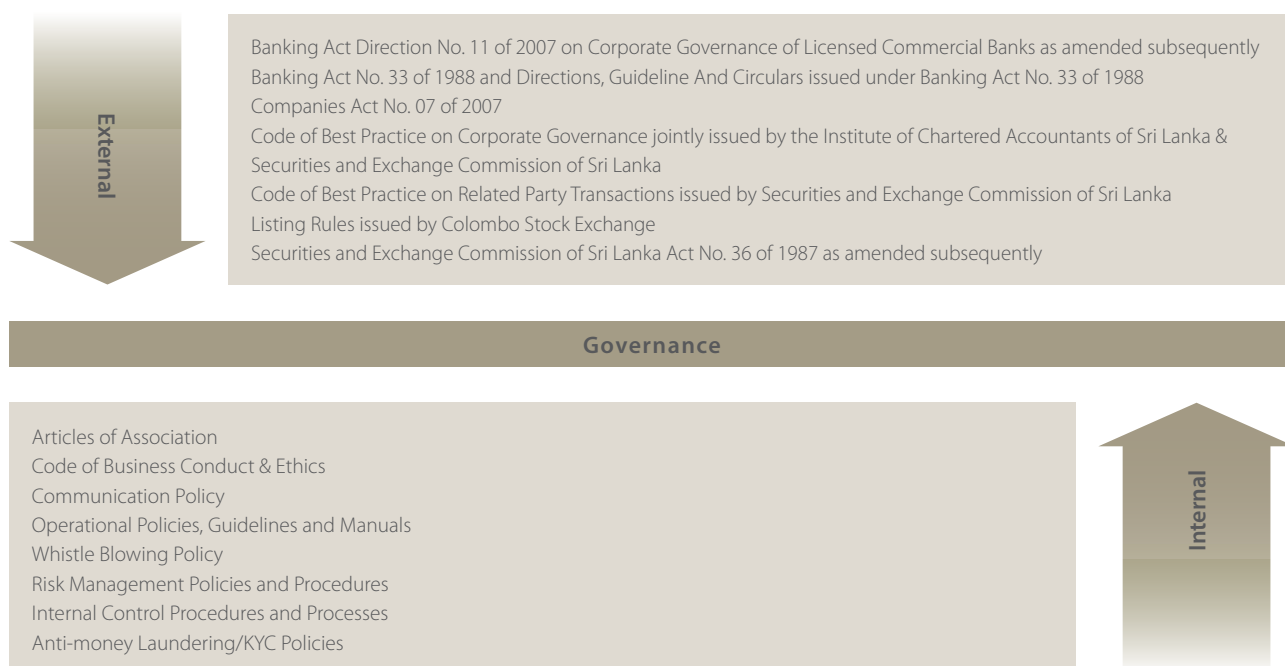
Board Nomination Committee - Page 106.

Board Credit Committee - Page 107.

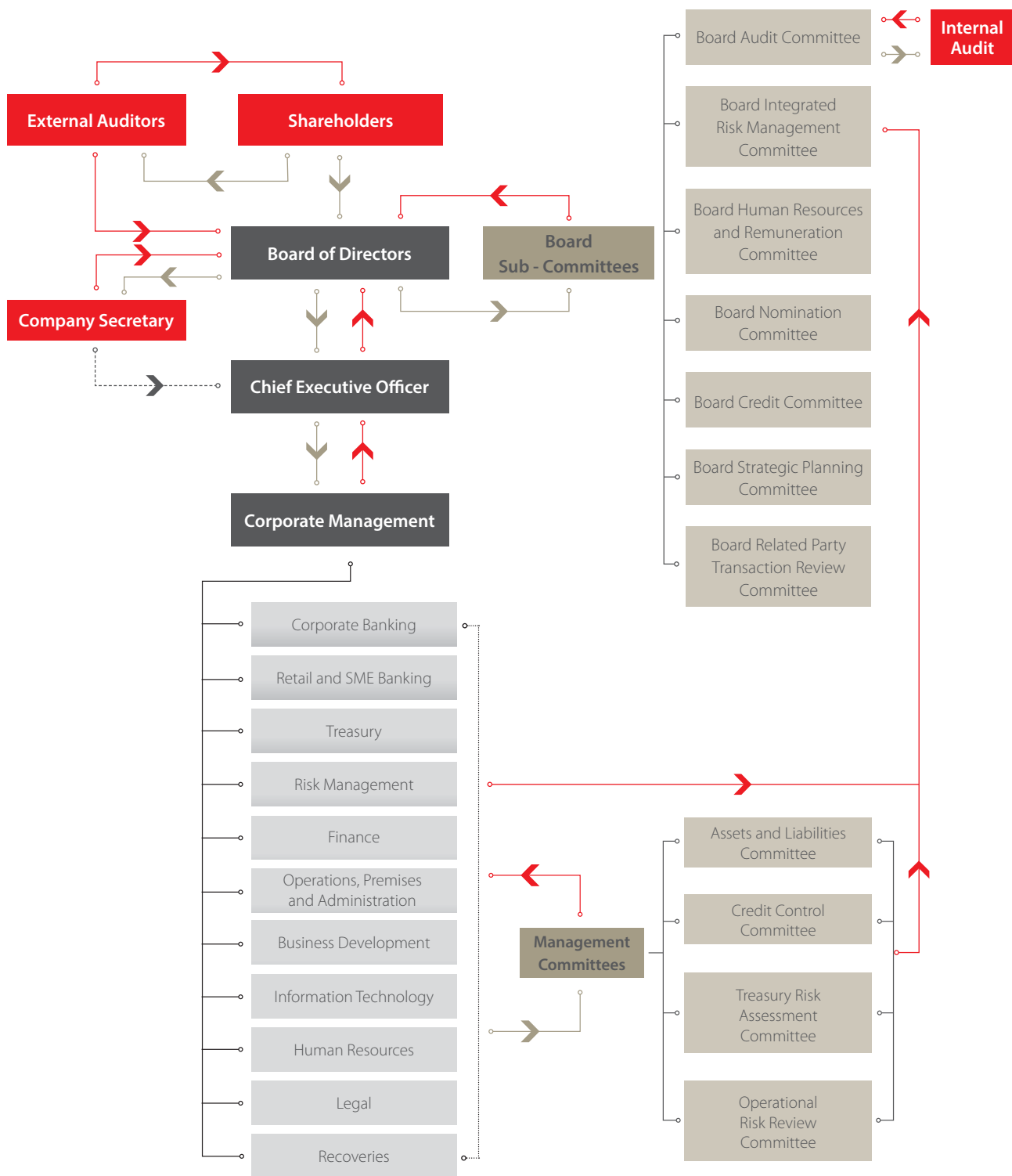
Board Strategic Planning Committee - Pages 108 to 109.

## Major Steering Instruments on Governance

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



## Governance Structure



Responsibility Flow



Appointment Flow



Administrative Responsibility Flow

# Corporate Governance

## Regulatory Framework

The Central Bank of Sri Lanka (CBSL) has issued Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (As amended subsequently) which the Banks had to comply with since the year 2010, 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 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 said rules from the year 2010 onwards 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 carries 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 4750 and provides a report of factual findings on the extent of Bank's compliance with the said Directions. The external auditors carried out this procedure in respect of the year 2015 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 and their report is given in page 101 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 Act Direction No. 11 of 2007 (as amended subsequently) on Corporate Governance for Licensed Commercial Banks in Sri Lanka and action taken to uphold the good governance.

Section	Principle	Compliance & Implementation
<b>3 (1)</b>	<b>The Responsibilities of the Board</b>	
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.	<p>The Bank's strategic objectives and corporate values are incorporated in the Board approved Strategic Plan for 2015-2017 period.</p> <p>These strategic objectives are communicated to relevant staff at regular briefing sessions and discussion meetings and then cascaded down to all levels.</p> <p>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.</p>

Section	Principle	Compliance & Implementation
(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.	<p>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.</p> <p>The Board approved strategic plan which contains measurable goals for 2015-17 period is in place. The business strategy is reviewed on a quarterly basis with updates. The Board approved the annual budget which is derived from the Bank's strategic plan.</p> <p>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.</p>
(c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	A stringent risk management process has been established covering a whole range of risk stemming from Credit, Market, Operational, Liquidity, Strategic and Compliance 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.	A Shareholder communication policy approved by the Board is in place.
(e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	The Bank has a separate Internal Audit Department which directly report 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 system 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. 3 of 2010 on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks as 'Key Management Personnel' of the Bank.	'Officers Performing Executive Functions' as referred to in the Banking Act Determination No. 3 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.	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 in the Bank. Defined areas of authority and the goals and targets have been approved by the Board. The responsibilities have been identified. The responsibilities and authority of Chief Executive Officer and other Key Management Personnel are also defined.



# Corporate Governance

Section	Principle	Compliance & Implementation
(h)	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy.	Key Management Personnel are present or are called in for discussions at Board Meetings and Board Subcommittee meetings as and when the need arises to explain matters relating to their respective areas. Affairs of the Key Management Personnel are monitored by the Board.
(i)	Periodically assess the effectiveness of the Board Directors' own governance practices, including: <ul style="list-style-type: none"> <li>i) the selection, nomination and election of Directors and Key Management Personnel</li> <li>ii) the management of conflicts of interests and</li> <li>iii) the determination of weaknesses and implementation of changes where necessary</li> </ul>	The Board has delegated the functions of selection, nomination and election of Directors to the Board Nomination Committee. Self assessments of the Directors are made by the Directors annually. This document is called 'Board performance evaluation checklist'. The Board assesses the effectiveness of its own governance practices on an annual basis.
(j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	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.	<p>The Board Committees on Risk Management, Credit, Human Resources and Remuneration, Audit and Strategic Planning meet regularly and the Key Management Personnel attend these meetings to review policies, establish communication lines and monitor progress towards corporate objectives.</p> <p>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.</p>
(l)	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	<p>The Board Secretary furnishes the Directors with 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.</p> <p>The Chairman, CEO and Directors maintain a good relationship with the regulators with regard to strategic matters of the Bank.</p> <p>The Compliance Officer keeps abreast with the regulatory requirements while maintaining an effective relationship with the regulator.</p>
(m)	Exercise due diligence in the hiring and oversight of External Auditors.	The Board Audit Committee is responsible for the hiring and oversight of the external auditor. The Audit Committee Charter approved by the Board specifies these requirements.

Section	Principle	Compliance & Implementation
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.	The Chairman and the CEO are appointed by the Board. Functions and responsibilities of the chairman and the CEO have been defined and approved by the Board.
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/ papers shall be avoided as far as possible.	12 Board Meetings were held during the year and the regulation has been complied accordingly. The attendance of the Board and Committee meetings are given on page 98.
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.	Agenda, draft minutes and Board Papers are sent 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.	Board Meeting Notice and Board Papers are circulated to Directors 7 days in advance of 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.	Board Meetings have been duly attended by all the Directors as identified in page 98.
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.	The Company Secretary is 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.	A Board approved policy 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.	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

Section	Principle	Compliance & Implementation
3 (1) (x)	<p>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:</p> <ul style="list-style-type: none"> <li>(i) a summary of data and information used by the Board in its deliberations</li> <li>(ii) the matters considered by the Board</li> <li>(iii) 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</li> <li>(iv) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations</li> <li>(v) 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</li> <li>(vi) the decisions and Board resolutions</li> </ul>	<p>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.</p>
3 (1) (xi)	<p>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.</p>	<p>Approved Board procedure includes a provision to enable the directors to seek independent professional advice at the Bank's expense.</p>
3 (1) (xii)	<p>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.</p>	<p>The Board procedure includes provisions to manage conflicts of interest 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.</p>

Section	Principle	Compliance & Implementation
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.	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.	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. The Bank has not come across any situation as such during the year 2015.
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.	The Bank is in compliance with the Capital Adequacy requirements stipulated by the Central Bank of Sri Lanka.
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction.	The Corporate Governance Report is published on pages 76 to 97 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.	Self assessment of each director is performed annually and filed with the Company Secretary.
<b>3(2)</b>	<b>The Board's Composition</b>	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	12 Directors constitute the Board as at the year end.
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.	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 (hereinafter referred to as an 'Executive Director') 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.	11 out of 12 Directors are Non-Executive Directors hence, this does not exceed one-third of the number of Director of the Board as identified in page 98.
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:	There are 4 Independent Non - Executive Directors on the Board as identified in page 98.
(a)	has direct and indirect share holdings of more than 1 per cent of the Bank.	There is one director holding more than 1% share holding as at the year end.

# Corporate Governance

Section	Principle	Compliance & Implementation
(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.	The Bank has not come across any situation as such during the year 2015.
(c)	has been employed by the Bank during the two year period immediately preceding the appointment as Director	The Bank has not come across any situation as such during the year 2015.
(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 dependant child.	The Bank has not come across any situation as such during the year 2015.
(e)	represents a specific stakeholder of the Bank.	One Director represents a specific shareholder 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	None of the Independent Non-Executive Directors meet the criteria of (i), (ii) & (iii) and Independent Non-Executive Directors have been duly identified.
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	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 judgment to bear on issues of strategy, performance and resources.	Nomination Committee is in place to consider 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.	Required quorum is being 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.	Disclosed in the Annual Report in page 98 'Present composition of Directors'.

Section	Principle	Compliance & Implementation
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.	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.	2 Directors were appointed to fill casual vacancies during the year and will be elected at the next Annual General Meeting to be held in 2016.
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall: <ul style="list-style-type: none"> <li>(i) 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</li> <li>(ii) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders'</li> </ul>	Director's resignations and removals are duly communicated to the relevant regulatory authorities as per Colombo Stock Exchange regulations.  Mr. H. K. Seneviratne 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	None of the present Directors of the Bank act as a Director of another Bank. The Directors have been requested to inform the Board if the Director concerned is appointed, elected or nominated as a Director of another Bank.
<b>3(3)</b>	<b>Criteria to Assess the Fitness and Propriety of Directors</b>	
3 (3) (i)	The age of a person who serves as Director shall not exceed 70 years.	There are no Directors who are over 70 years of age. The Company Secretary maintains the records of the age 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.	As per the declarations provided by the Directors, no Director holds Directorships in more than 20 companies.
<b>3(4)</b>	<b>Management Functions Delegated by the Board</b>	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	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.	All delegations are made in a manner that would not hinder/reduce the Board's ability to discharge its functions.
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank. Delegation arrangements are reviewed based on business requirements.	The Board periodically reviews and approves the delegation arrangements in place and ensures that the extent of delegation addresses the needs of the Bank whilst enabling the Board to discharge their functions effectively.



# Corporate Governance

Section	Principle	Compliance & Implementation
<b>3(5)</b>	<b>The Chairman and Chief Executive Officer</b>	
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. The Chairman is a Non-Executive Director and since he is not independent, an Independent Director is appointed as the "Senior Director".	<p>The Chairman is a Non-Executive Director. Since he is not independent, Mr. M.A.Abeynaike, Non- Executive Independent Director has been appointed as the "Senior Director"</p> <p>Designation/s of Senior Director/s is disclosed in the Annual Report.</p>
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 Board is aware that there are no relationships whatsoever between the Chairman and Chief Executive Officer. Similarly no relationships prevail among the other members of the Board, other than being common Directors of certain companies.
3 (5) (iv)	<p>The Chairman shall:</p> <ul style="list-style-type: none"> <li>(i) provide leadership to the Board</li> <li>(ii) ensure that the Board works effectively and discharges its responsibilities and</li> <li>(iii) Ensure that all key and appropriate issues are discussed by the Board in a timely manner.</li> </ul>	Complied with. The Chairman is responsible for conducting of the Board meetings, preserves order and ensure that the proceedings of the meetings are conducted in a proper manner.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	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.	The Chairman ensures that the Board is adequately briefed and informed regarding the matters arising at the Board. The Board Papers are sent seven days prior to the meeting in order for Directors to request any other information if necessary. Management information is provided to Directors on regular basis enabling them to assess the stability and performance of the Bank.

Section	Principle	Compliance & Implementation
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.	This requirement is complied with and addressed in the self evaluation process.
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Complied with. The Chairman ensures that the Non-Executive Directors actively contribute to make decisions at Board level.
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	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. Chairman communicates with 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.	The Chief Executive Officer functions as the apex executive in charge of the day to day management.
<b>3(6)</b>	<b>Board Appointed Committees</b>	
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.	The Board has established an Audit, Nomination, Human Resources & Remuneration, Integrated Risk Management, Credit and Strategic Planning. All Board Committees submit minutes to the Board. Each Committee report is published in the Annual Report on pages 102 to 109.
<b>3(6)(ii)</b>	<b>Audit Committee</b>	
(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 qualified Chartered Accountant 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 four members of the Committee are Non-Executive Directors.

# Corporate Governance

Section	Principle	Compliance & Implementation
(c)	<p>The Committee shall make recommendations on matters in connection with:</p> <ul style="list-style-type: none"> <li>(i) the appointment of the External Auditors for audit services to be provided in compliance with the relevant statutes</li> <li>(ii) the implementation of the Central Bank guidelines issued to Auditors from time to time</li> <li>(iii) the application of the relevant accounting standards and</li> <li>(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.</li> </ul>	<p>The Audit Committee has made its recommendations on following and complied with the requirement accordingly:</p> <ul style="list-style-type: none"> <li>(i) the appointment of the External Auditors and services to be provided are in compliance with the relevant statutes</li> <li>(ii) the implementation of the Central Bank guidelines issued to Auditors from time to time</li> <li>(iii) the application of the relevant accounting standards</li> <li>(iv) the service period, audit fee and any resignation or dismissal of the Auditors</li> </ul> <p>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.</p>
(d)	<p>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.</p>	<p>Complied with. The Committee has obtained representations from the external auditors' on their independence, and that the audit is carried out in accordance with Sri Lanka Auditing Standards.</p>
(e)	<p>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 Auditor's independence or objectivity. When assessing the external Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider</p> <ul style="list-style-type: none"> <li>(i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services</li> <li>(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</li> <li>(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</li> </ul>	<p>A policy is in place to ensure compliance with the requirements</p>

Section	Principle	Compliance & Implementation
(f)	<p>The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including</p> <ul style="list-style-type: none"> <li>(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</li> <li>(ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations and</li> <li>(iii) the co-ordination between firms where more than one audit firm is involved</li> </ul>	<p>Complied with, The nature and scope of the audit and related engagements are discussed at the Board Audit Committee meeting.</p>
(g)	<p>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</p> <ul style="list-style-type: none"> <li>(i) major judgmental areas</li> <li>(ii) any changes in accounting policies and practices</li> <li>(iii) significant adjustments arising from the audit;</li> <li>(iv) the going concern assumption and</li> <li>(v) the compliance with relevant Accounting Standards and other legal requirements</li> </ul>	<p>The Audit committee reviewed the Annual and Quarterly Financial Statements prepared in accordance with Sri Lanka Accounting Standards and other legal requirements and also on the going concern basis which are presented to the Committee by the Chief Financial Officer.</p>
(h)	<p>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.</p>	<p>The Committee met with external auditors and discussed related matters independently in the absence of Key Management Personnel.</p>
(i)	<p>The Committee shall review the external Auditor's Management Letter and the management's response thereto.</p>	<p>The Committee reviewed the external auditor's Management Letter and the management response thereto.</p>

# Corporate Governance

Section	Principle	Compliance & Implementation
(j)	<p>The Committee shall take the following steps with regard to the internal audit function of the Bank:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(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</li> <li>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department</li> <li>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function</li> <li>(v) Ensure that the Committee is appraised of resignations of senior staff members of the internal audit department including the chief internal Auditors 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;</li> <li>(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</li> </ul>	<p>Complied with,</p> <p>Items (i) and (ii) - the Audit Committee review and monitors the internal audit function and progress of the annual audit plan. The annual plan is reviewed and approved at the beginning of the year. Internal audit reports are discussed with the Audit Committee and necessary actions are taken at its monthly meetings.</p> <p>Item (iii) - Performance of the Head and Senior staff members of the Internal Audit Department are reviewed/assessed annually.</p> <p>Item (iv) - The committee reviewed the appointments of senior staff and outsourced service provider's reports.</p> <p>Item (v) - The Committee is appraised of the resignations of senior staff members of the internal audit department and outsourced service providers.</p> <p>Item (vi) - The Internal audit function is an independent function with direct reporting to the Board Audit Committee.</p>
(k)	The Committee shall consider the major findings of internal investigations and management's responses thereto.	Major findings of internal investigations and management's responses thereto are considered by the Committee and also minuted.
(l)	The Chief Financial Officer, the Chief Internal Auditors and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	<p>The Chief Financial Officer, the Head of Internal Audit and representatives of external auditors attends monthly committee meetings.</p> <p>The Chief Executive Officer, Corporate and Senior Management members attend meeting upon invitation.</p> <p>The Committee met with the external auditors independently without the executive management being present.</p>
(m)	<p>The Committee shall have:</p> <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its Terms of Reference;</li> <li>(ii) the resources which it needs to do so;</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>	<p>The Audit Committee has</p> <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its terms of reference</li> <li>(ii) the resources which it needs to do so;</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>

Section	Principle	Compliance & Implementation
(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.	The Audit Committee met 13 times during the year and the committee's conclusions are recorded in the minutes.
(o)	The Board shall disclose in an informative way, (i) details of the activities of the Audit Committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings	The details of Committee activities and number of meetings are disclosed in pages 102 to 103 of the Annual Report, Attendance of individual Directors are disclosed in page 98 of the Annual Report.
(p)	The Secretary of the Committee shall record and keep detailed Minutes of the Committee Meetings.	The Secretary of the Committee is the Head of 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.	A Whistle Blowing Policy reviewed and approved by the Committee is in place.  The Audit Committee is the key representative body for overseeing the Bank's relationship with external auditors.
<b>3 (6) (iii) Human Resources and Remuneration Committee</b>		
(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.	The key functions of the Human Resources and Remuneration Committee are disclosed in Annual Report Page 105 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.	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.
(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.



# Corporate Governance

Section	Principle	Compliance & Implementation
<b>3 (6) (iv)</b>	<b>Nomination Committee</b>	
(a)	The Committee shall implement a procedure to select/ appoint new Directors, Chief Executive Officer and Key Management Personnel.	Procedure for the selection/appointment of the Directors and Chief Executive Officer is 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 has considered and recommended the re-election of current Directors.
(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.	Criteria for the appointment or promotion to the post of Chief Executive Officer complied with.
(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.	Directors and Chief Executive Officer's affidavits & the Declarations are tabled at the Nomination Committee prior to forwarding to CBSL for approval to ensure that the Directors are fit & proper persons to hold office.
(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.	Succession arrangements for retiring Board of Directors is considered as and when it is necessary. Succession arrangements for Key Management Personnel is 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.	The Committee is Chaired by an Independent Director and the majority of Directors are Independent. The Chief Executive Officer attends meetings by invitation.
<b>3 (6) (v)</b>	<b>Integrated Risk Management Committee (IRMC)</b>	
(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.	The Committee consists of three Non-Executive Directors appointed by the Board, the Chief Executive Officer, Chief Risk Officer, Head of Credit Control, Senior Manager Credit Risk, Manager - Treasury Middle Office, and Manager - Operational Risk. 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.	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.

Section	Principle	Compliance & Implementation
(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 Control Committee, Assets & Liabilities Committee, Treasury Review 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.	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.	The Committee had five meetings during the year and deliberations are made on whole risk spectrum encountered by the Bank.
(f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	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.	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.	An independent compliance function is in place led by a dedicated Compliance Officer to assess and ensure Bank's business and activities are complied with laws, regulatory guidelines, internal policies and control procedures.
<b>3(7)</b>	<b>Related Party Transactions</b>	
3 (7) (i)	<p>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</p> <ul style="list-style-type: none"> <li>(a) Any of the Bank's subsidiary companies</li> <li>(b) Any of the Bank's associate companies</li> <li>(c) Any of the Directors of the Bank</li> <li>(d) Any of the Bank's Key Management Personnel</li> <li>(e) A close relation of any of the Bank's Directors or Key Management Personnel</li> <li>(f) A shareholder owning a material interest in the Bank;</li> <li>(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</li> </ul>	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.

# Corporate Governance

Section	Principle	Compliance & Implementation
3 (7) (ii)	The type of transactions with Related Parties that shall be covered by this Direction shall include the following:	
(a)	The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation.	A Board approved policy on Related Party transactions is in place to avoid any conflicts of interest that may arise from any transaction on the Bank with any person.
(b)	The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,	A Board approved policy on Related Party transactions is in place to avoid any conflicts of interest.
(c)	The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank.	A Board approved policy on Related Party transactions is in place to avoid any conflicts of interest.
(d)	The creation or maintenance of reporting lines and information flows between the Bank and any Related Parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such Related Parties.	A Board approved policy on Related Party transactions is in place to avoid any conflicts of interest.
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with Related Parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business. In this context, "more favourable treatment" shall mean and include treatment, including the	
(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	A Board approved policy on Related Party Transactions is in place to avoid any conflicts of interest.  In order to further strengthen the corporate governance, Board Related Party Transactions Review Committee was appointed towards the end of 2015.
(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.	The Bank treats all related parties as unrelated counter parties in deciding interest for credit facilities and deposit products.
(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.	The Bank treats all Related Parties on the same basis as they would treat unrelated counter parties for all transactions.

Section	Principle	Compliance & Implementation
(d)	Providing services to or receiving services from a Related-Party without an evaluation procedure.	A Board approved Outsourcing Policy is in place
(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.	Incorporated in the Staff Code of Conduct signed by the employees.
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.	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.	The Bank follows directions / guidelines issued by Central Bank of Sri Lanka for related party transactions.
(b)	Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.	The Bank follows directions / guidelines issued by Central Bank of Sri Lanka for related party transactions.
(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.	The Bank follows directions / guidelines issued by Central Bank of Sri Lanka for related party transactions.
(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.	The Bank follows directions / guidelines issued by Central Bank of Sri Lanka for related party transactions.

# Corporate Governance

Section	Principle	Compliance & Implementation
3 (7)( vi)	A Bank shall not grant any accommodation or “more favorable 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.	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.	A process is in place. No such instances noted during the period under review.
<b>3 (8)</b>	<b>Disclosures</b>	
3 (8) (i)	<p>The Board shall ensure that:</p> <p>(i) 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</p> <p>(ii) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English</p>	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.
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	Relevant disclosures are included in page 118 & 119 of the Annual Report under “Directors Responsibility for Financial Reporting”.
(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	“Directors’ Statement on Internal Controls over Financial Reporting” where the Board 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 are included in page 99 and 100 of the Annual Report.

Section	Principle	Compliance & Implementation
(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.	The Board has obtained External Auditors' Assurance Report on Bank's Internal Controls which is published in page 101 of the Annual Report.
(d)	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank.	Relevant Disclosures are included in the Annual Report with regard to fitness & propriety & the transactions with the Bank.  Relevant disclosures are include in;  (i) Profiles of Board of Directors on pages 26 to 27  (ii) Notes to the Financial Statements on 'Directors Emoluments' on page 150 and 'Related Party Disclosure' on pages 199 to 201 of the Annual Report
(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.	Relevant disclosures are included on page 201 of the Annual Report.
(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.	Relevant disclosures are included on page 200 of the Annual Report under 'Related Party Disclosures' (Compensation to Key Management Personnel).
(g)	The external Auditor's certification of the compliance with these Directions in the Annual Corporate Governance Reports.	Relevant disclosures are included on page 78 of the Annual Report under 'Corporate Governance' section.
(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.	Relevant disclosures are included on page 121 of the Annual Report under 'Bank's Compliance with Prudential Requirements' and on pages 118 & 119 under 'Directors' Responsibility for Financial Reporting'.
(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 Monetary Board to be disclosed to the public.



### Attendance of Directors During the Year

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	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
W. D. N. H. Perera	12	12	-	-	9	7	-	-	5	4	5	4	-	-
R. E. U. De Silva	12	12	-	-	12	10	-	-	-	-	4	4	-	-
M. A. Abeynaïke	12	12	13	12	-	-	-	-	3	3	5	5	3	3
M. D. S. Goonatilleke	12	12	13	12	-	-	5	5	-	-	-	-	3	3
T. G. Thoradeniya	12	12	-	-	12	9	-	-	5	5	-	-	3	3
G. A. R. D. Prasanna	12	12	-	-	-	-	4	4	-	-	-	-	-	-
T. Igarashi	12	12	-	-	-	-	5	5	-	-	-	-	-	-
T. Murakami	12	12	13	10	-	-	-	-	-	-	-	-	-	-
S. B. Rangamuwa	12	12	-	-	12	12	-	-	-	-	-	-	-	-
A. A. Wijepala	8	8	7	7	-	-	-	-	-	-	-	-	-	-
H. N. J. Chandrasekera	8	8	-	-	7	7	-	-	-	-	-	-	-	-
P. L. D. N. Seneviratne	12	12	13	12	12	11	5	5	5	4	5	5	3	2
H. K. Seneviratne	1	1	2	2	-	-	1	-	1	1	1	1	-	-

### Present Composition of Directors

Name of the Director	Category
W. D. N. H. Perera	Non-Executive Director
R. E. U. De Silva	Independent, Non-Executive Director
M. A. Abeynaïke	Senior Director/Independent, Non-Executive Director
M. D. S. Goonatilleke	Non-Executive Director
T. G. Thoradeniya	Non-Executive Director
G. A. R. D. Prasanna	Non-Executive Director
T. Igarashi	Independent, Non-Executive Director
T. Murakami	Non-Executive Director
S. B. Rangamuwa	Non-Executive Director
A. A. Wijepala	Independent, Non-Executive Director
H. N. J. Chandrasekera	Non-Executive Director
P. L. D. N. Seneviratne	Director / Chief Executive Officer

# Directors' Statement on Internal Controls Over Financial Reporting

## Responsibility

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

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at the 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 in accordance with the Guidance for Directors of Banks on the Directors' Statement on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal controls over financial reporting, taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls 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 Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

## 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 102 to 103.
- 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

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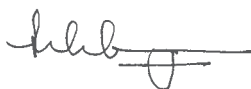
# Directors' Statement on Internal Controls Over Financial Reporting

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 of 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 2015 in connection with the internal control system over financial reporting will be dealt with in the future.

ended 31st December 2015 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal controls over financial reporting of the Bank. Their Report on the Statement of Internal Controls over Financial Reporting is given on page 101 of this Annual Report.

## By Order of the Board



**M. A. Abeynaïke**  
Chairman - Board Audit Committee

## Confirmation

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



**W. D. N. H. Perera**  
Chairman



**P. L. D. N. Seneviratne**  
Chief Executive officer

## Review of the Statement by External Auditors

The External Auditors, Messrs Ernst & Young, have reviewed the above Directors' Statement on Internal Controls over Financial Reporting included in the Annual Report of the Bank for the year

Colombo  
17th February 2016

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



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Chartered Accountants  
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Sri Lanka

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

### Report on the Directors' Statement on Internal Controls 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 Controls over Financial Reporting ("the Statement") included in the Annual Report for the year ended 31st December 2015.

### 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 Controls" 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 Controls 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 controls 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 controls over financial reporting of the Bank.

17th February 2016  
Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H Fernando FCA FCMA  
W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

A member firm of Ernst & Young Global Limited

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# Board Audit Committee Report

## Composition of the Committee

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

### M. A. Abeynaïke

Chairman - Independent Non - Executive Director / Senior Director

### M. D. S. Goonatilleke

Non - Executive Director

### T. Murakami

Non - Executive Director

### A. A. Wijepala

Independent Non - Executive Director  
(Appointed in May 2015)

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

Mr. H. K. Seneviratne served the Board and Audit Committee until his retirement from the Board in February, 2015.

The Committee wishes to place on record its sincere appreciation and gratitude to Mr. Seneviratne for his contribution and management expertise provided to the Audit Committee as a member.

Mr. A. A. Wijepala was appointed to the Audit Committee in May 2015. Mr. Wijepala was the former Commissioner General of Department of Inland Revenue and his profile details are listed on page no 27 of the Annual Report.

## Role of the Committee

The Charter of the Board Audit Committee 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 and risk management. The Committee is empowered to:

- Monitor the integrity of the Financial Statements and review of significant reporting judgements contained in therein to be in compliance with Sri Lanka Accounting Standards
- Review the internal financial and other controls and risk management systems
- 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 auditors and to approve the remuneration and terms of engagement of the external auditors
- Review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process
- Ensure that Bank 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 13 meetings during the period under review. Head of Internal Audit functioned as the secretary to the Committee.

The Chief Executive Officer, Chief Operating Officer, Chief Risk Officer, Chief Financial Officer and Deputy General Manager-Retail Banking 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 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. The annual audit plan for the year was based on a Risk Based Planning methodology for risk assessment of auditable areas. The Committee reviewed the audit reports presented by the Internal Audit Department together with Management responses. The Committee regularly reviewed and monitored the internal audit coverage of the annual audit plan.

Taking the above into consideration, the Committee makes its recommendations to strengthen procedures and internal control systems, with a view to managing overall risk and improving efficiency and effectiveness of key processes.

## External Audit

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

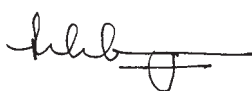
The Committee met with Messrs Ernst & Young prior to commencement of the Annual Audit to discuss the audit scope, approach and methodology to be adopted. The Committee reviewed and ensured that the lead audit partner was rotated every five years in accordance with Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka. The Management Letter of the External Auditors and the responses of the management thereto were discussed at a Special Audit Committee Meeting. The auditors have assured that they have no cause to compromise their independence.

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 Messrs Ernst & Young, Chartered Accountants, be reappointed as the auditors of the Bank for the financial year ending 31st December 2016, subject to the approval of the Shareholders at the Annual General Meeting.

## Conclusion

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



**M. A. Abeynaike**

Chairman

Board Audit Committee

Colombo

17th February 2016

# Board Integrated Risk Management Committee Report

## Composition of the Committee

The Board Integrated Risk Management Committee is comprised of the following Directors at the end of the year;

### M. D. S. Goonatileke

Chairman, Non - Executive Director

### T. Igarashi

Independent Non - Executive Director

### G. A. R. D. Prasanna

Non - Executive Director (Appointed in March 2015.)

### P. L. D. N. Seneviratne

Chief Executive Officer/Director

In addition to the above members, the Committee comprises of Chief Risk Officer, Head of Credit Control who currently functions as the Secretary to the Committee, Senior Manager Credit Risk, Senior Manager Market Risk and Manager Operational Risk. The Committee invites any Key Management Personnel or any other senior management personnel or managers to attend the meetings depending on the subject matters under consideration in the agenda.

## Responsibilities and Meetings

The overall risk management of the Bank 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 and regularly review the key risk indicators under credit, market, operational, compliance, reputational, legal and other contingencies and regularly monitor risk goal and regulatory limits under each of these risk indicators.

During the year, five new risk indicators and risk goals were introduced for review and monitoring by the Committee for baseline security standards for information security under the standards set by Central Bank of Sri Lanka. Further, directives on risk management are given by the Board of Directors as well.

During the year, the Committee decided to conduct meetings once every two months in comparison to quarterly meetings conducted previously, and held five meetings. During these meetings adequate deliberations were made to review achievement of the set risk goals, progress made between the reporting periods for each risk goal, and follow up actions if any initiated through circulation of meeting minutes among heads of responsible business, operational and support units and heads of each risk unit, and progress reported to following meeting. Subsequent to each meeting, the relevant minutes along with a report on risks assessment and risk commentary were submitted to the Board of Directors for review and guidance.

## Functions of the Committee

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

- Regular review of Internal Capital Adequacy Assessment Process (ICAAP) and assessment of the Bank's business strategy, growth plans and governance 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 risks faced by the Bank.
- Peruse and review the activities and progress of management committees

set up for risk management in the Bank covering major risks. Such committees are;

- i) Assets and Liabilities Committee (ALCO)
- ii) Credit Control Committee
- iii) Operational Risk Management Committee
- iv) Treasury Risk Assessment Committee

- Regular review and update of all policies relating to risk management in the Bank and introduction of risk related new policies and procedures.
- Recommendation of improvements to Bank's strategy for lending, business expansion and growth, and review mitigation factors for adverse impact on Bank's overall strategy.
- Review business continuity plan, business impact analysis and disaster recovery plan of the Bank.

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



**M. D. S. Goonatileke**  
Chairman

Board Integrated  
Risk Management Committee

Colombo

17th February 2016



# Board Human Resources and Remuneration Committee Report

## Composition of the Committee

The Board Human Resources and Remuneration Committee comprise of following Directors at the year end;

### W. D. N. H. Perera

Chairman, Non -Executive Director

### M. A. Abeynaïke

Independent Non-Executive Director/  
Senior Director

### T. G. Thoradeniya

Non-Executive Director

### P. L. D. N. Seneviratne

Chief Executive Officer / Director

- Approve the selection of the candidates for the positions of Manager and above Grades whilst ascertaining remuneration & other terms and conditions for the selected candidates.

- Approve interview panels for recruitment to other positions.

- Review key positions regularly and have a succession plan in place.

In addressing the principal task of the Committee relating to compensation and benefits, it ensures that all compensation and benefit decisions are consistently aligned with the overall compensation strategy, which focus and drive the performance of the Bank whilst being consistent with its performance culture.

## Responsibilities and Meetings

The Committee held five meetings during the year 2015. Head of Human Resources and other members of the Management attend meetings by invitation.

The Key Functions of the Committee are as follows;

- Determine the remuneration relating to Chief Executive Officer and Key Management Personnel of the Bank.
- Set up goals and targets for the Chief Executive Officer and Key Management Personnel.
- 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.
- Ensure that salaries are reviewed periodically and evaluated against industry norms.



### W. D. N. H. Perera

Chairman

Board Human Resources and  
Remuneration Committee

Colombo

17th February 2016

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# Board Nomination Committee Report

## Composition of the Committee

The Board Nomination Committee is comprised of the following Directors as at year end;

### R. E. U. De Silva

Chairman - Independent Non - Executive Director (Appointed as the Chairman of the committee in February 2015)

### W. D. N. H. Perera

Non -Executive Director

### M. A. Abeynaike

Independent Non - Executive Director / Senior Director

Mr. H. K. Seneviratne, former Chairman of the Committee and Independent Non - Executive Director retired from the Committee and the Board w.e.f 13th February 2015.

The Company Secretary functions as the Secretary of the Committee.

Five 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
- In the appointment of Directors, the Board proposes the names and seeks the Nomination Committee for recommendation of the suitability of the persons proposed. Nomination Committee after careful consideration submits their recommendation to the Board. The Board on receipt of the recommendation of the Nomination Committee submits the affidavit and the Declaration of the proposed Director to Central Bank 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.
- To review and recommend, from time to time, the additional/new expertise capabilities necessary and the succession plan for retiring Directors.
- To ensure, in text and action, that Directors and Chief Executive Officer 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's concerned towards the overall discharge of Board's responsibilities.



### R. E. U. De Silva

Chairman

Board Nomination Committee

Colombo

17th February 2016

# Board Credit Committee Report

## Composition of the Committee

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

### R. E. U. De Silva

Chairman - Independent Non-Executive Director (Appointed as Chairman in June 2015)

### T. G. Thoradeniya

Non - Executive Director

### S. B. Rangamuwa

Non - Executive Director

### H. N. J. Chandrasekera

Non - Executive Director (Appointed in June 2015)

### P. L. D. N. Seneviratne

Chief Executive Officer / Director

The Chief Risk Officer is a member of the Committee. Head of Credit Control currently acts as the Secretary to the Committee.

Corporate management members of the Bank in charge of Corporate Banking, Retail and SME Banking, 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 problem credit facilities including non performing advances

- Proper evaluation of new lending proposals of high value which comes within the purview and authority of the Committee
- Proper evaluation of new lending opportunities in the economy
- Monitor changes in economic and operating environment of the Bank to ensure adequate control in the lending book
- Provide guidance and directives for credit origination

The Committee had 12 meetings during the year and minutes of each meeting were duly circulated among Committee members and management personnel attending the Committee and any other responsible managers for follow up actions and disbursement of credit facilities as per the approval conditions imposed by the Committee. All credit approvals by the Committee were subject to detailed deliberations among Committee members.

## Functions of the Committee

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

- Review and sanction credit proposals submitted which requires the approval of the Committee as per the delegated lending authorities in force within the Bank.
- Review the changes to credit policy initiated by the management of the Bank and approve them with or without modifications or recommend them for the approval of Board of Directors with or without modifications.
- Ensure compliance of lending activities of the Bank with approved credit policies of the Bank and statutory and regulatory requirements and guidelines.

- Credit portfolio reviews 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 list of accounts and monthly non performing advances report.
- Define credit approval framework and assign delegated approval limits for lending as per Bank's credit policy.
- Review and recommend credit proposals to the Board of Directors for which Board approval is required as per Bank's credit policy and regulatory guidelines.
- Ensure credit risk exposures are kept within acceptable limits to maximize 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 performance of the lending book.
- Ensure all new lending products are reviewed from a credit risk management perspective with appropriate controls to maintain the quality of the portfolio.

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



**R. E. U. De Silva**  
Chairman

Board Credit Committee

Colombo  
17th February 2016

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# 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. The Board understands that effective strategic planning is the core foundation for the future of the Bank and the Strategic Plan is a powerful tool for monitoring the Bank's progress and for guiding the Bank to accomplish the goals expected by its stakeholders. The Bank has developed a Strategic Planning initiative that has evolved with the changes in the regulatory landscape, experience and execution.

## Composition of the Committee

The Committee comprises of three Non-Executive Directors. The Committee is chaired by an Independent Non-Executive Director. The following Directors serve in the Board Strategic Planning Committee as at the year end;

### M. A. Abeynaike

Chairman - Independent Non-Executive Director / Senior Director

### M. D. S. Goonatilleke

Non-Executive Director

### T. G. Thoradeniya

Non-Executive Director

The profiles of the members are given on pages 26 to 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

- (i) 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.
- (ii) Ensuring that the annual budget is prepared to accomplish the goals and objectives of the strategic plan and recommending the same to the Board.
- (iii) Reviewing the actual performance against the strategic plan as well as the annual budget.
- (iv) Reviewing the appropriateness of current Vision, Mission and strategic positioning of the Bank.
- (v) Approving all strategic investment decisions such as mergers and acquisitions and recommending the same to the Board.
- (vi) Reviewing the adequacy and composition of the Bank's capital structure in the context of the growth targets.

## Meetings

The Committee met on three occasions 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 98 of the Annual Report.

## Reporting to the Board

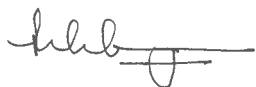
Minutes of the Committee meetings are circulated to the Committee members by the Secretary and the confirmed minutes are submitted to the Board of Directors for concurrence.

## Performance

The Committee reviewed the updates to the Bank's three year Strategic Plan for 2015-17 period and Annual Budget for the year 2016, to identify areas of concern which needed changes in strategic direction.

The Committee engaged in discussions with the Corporate Management and Strategic Planning team to determine the strategic direction for the Bank for the 2016 - 2017 period which formed the basis for the development of the Strategic Plan for this period. The updated Strategic Plan was approved by the Committee and also recommended to the Board of Directors for their approval together with the Annual Budget for year 2016, which was developed in line with the strategy document.

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.



**M. A. Abeynaike**

Chairman

Board Strategic Planning Committee

Colombo

17th February 2016

# 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 2015.

The details set out herein provide the pertinent information required by the Companies Act No. 07 of 2007, the Listing Rules of the Colombo Stock Exchange and the best accounting practices recommended by the Institute of Chartered Accountants of Sri Lanka and necessary disclosures in the best interest of stakeholders of the Bank.

## General

Pan Asia Banking Corporation PLC, a Licensed Commercial Bank is listed on the Colombo Stock Exchange and was incorporated in Sri Lanka, as 'Pan Asia Bank Limited' on 06th March, 1995 under the Companies Act No. 17 of 1982 and Licensed as a Commercial Bank under the Banking Act No. 30 of 1988 changed its name to 'Pan Asia Banking Corporation Limited' on 23rd April, 2004 and has now been re-registered as per the requirement under the new Companies Act No. 07 of 2007 and changed its name to 'Pan Asia Banking Corporation PLC'.

The Report of the Board of Directors on the Affairs of the Bank and the Financial Statements were approved by the Board of Directors on the 17th of February 2016.

## Principal Activities

The Bank's principal business activities are Commercial Banking and related financial services.

## Profit and Appropriation

The Bank's profits and appropriations were as follows :

	2015 Rs. 000	2014 Rs. 000
Profit before Taxation	1,542,130	538,434
Taxation	(501,612)	(123,223)
Profit for the Year	1,040,518	415,211
Other Comprehensive Income	(1,874)	(7,814)
Retained Profit Brought Forward	2,718,777	1,861,682
Transfer to Reserve Fund	(52,027)	(20,761)
Transfer from Investment Fund	-	468,906
Realisation of Revaluation Reserve	6,210	1,553
Un-appropriated Profit to be Carried Forward	3,711,604	2,718,777

Statutory Reserve Fund and are shown in Note 34 and 35 to the Financial Statements.

## Financial Statements

The Financial Statements of the Bank are given on page 126 to 204 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:

	2015 Rs. 000	2014 Rs. 000
Gross Income	10,759,138	8,843,956

## Auditors' Report

The auditors of the Bank are Messrs Ernst & Young, Chartered Accountants. Their report on the Financial Statements is given on page 125 They come up for re-election at the Annual General Meeting, with the approval of the Board Audit Committee and the Board of Directors.

## Shareholders' Funds and Reserves

The Bank's total reserves as at 31st December 2015 stood at Rs.4,224,307,331/-. This comprises a Statutory Reserve Fund of Rs.241,996,115/-, Revaluation Reserve of Rs.270,706,610/- and Retained Earnings of Rs.3,711,604,606/-. The movement in Revaluation Reserve and

## Accounting Policies

The accounting policies adopted in preparation of the Financial Statements are given on pages 130 to 146.

## 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 is available for inspection in terms of the Act. The particulars of the Directors' in Contracts are given in pages 114 to 115 of the Annual Report.

### Donations

The Board of Directors have not approved any donations during the year.

### Directorate

The names of the Directors of the Bank during the period 01.01.2015 to 31.12.2015 and changes that occurred in the composition of the Board during the period under review are given below. The classification of Directors into Executive, Non - Executive and Independent Non - Executive Directors are given against the names as per the Central Bank mandatory rules on Corporate Governance under the Banking Act directions.

**W. D. N. H. Perera** : Non-Executive Director since September 2007, appointed as 'Deputy Chairman' in March 2008 and as 'Chairman' in April, 2012.

**R. E. U. De Silva** : Independent Non-Executive Director since July 2008. Appointed as 'Deputy Chairman' in April 2012.

**M. A. Abeynaïke** : Independent Non-Executive Director since October 2014. Appointed as 'Senior Director' in February 2015.

**M. D. S. Goonatilleke** : Non-Executive Director since August 2008.

**T. G. Thoradeniya** : Non-Executive Director since June 2010.

**G. A. R. D Prasanna** : Non-Executive Director since May 2012.

**T. Igarashi** : Independent Non-Executive Director since October 2012.

**T. Murakami** : Non-Executive Director since, April 2013.

**S. B. Rangamuwa** : Non-Executive Director since, August 2014.

**A. A. Wijepala** : Independent Non-Executive Director since, May 2015.

**H. N. J. Chandrasekera** : Non-Executive Director since, May 2015.

**P. L. D. N. Seneviratne** : Director / Chief Executive Officer since, March 2014.

**H. K. Seneviratne** : Independent Non-Executive Director since April 2010. Appointed as Senior Director in June 2013 and retired in February 2015 reaching 70 years of age.

### Directors' Interest in Shares

	No. of Shares As at 31.12.2015	No. of Shares As at 01.01.2015
W. D. N. H. Perera	7,510,238	712,558
R. E. U. De Silva	1,288,639	1,288,639
M. A. Abeynaïke	-	-
M. D. S. Goonatilleke	422	422
T. G. Thoradeniya	36	36
G. A. R. D. Prasanna	20,000	5,000
T. Igarashi	-	-
T. Murakami	-	-
S. B. Rangamuwa	-	-
A. A. Wijepala	-	-
H. N. J. Chadrsekera	100	-
P. L. D. N. Seneviratne	29,000	14,000

### Re-elections

In terms of Article No's. 82 and 83 of the Articles of Association of the Bank R. E. U. De Silva and T. Igarashi retire by rotation and being eligible, offer themselves for re-election, on an unanimous recommendation by the Board of Directors.

In terms of Article 89 of the Articles of the Association of the Bank, A. A. Wijepala and H. N. J. Chandrasekera being eligible, offers themselves for re-election, on a 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 114 to 115 of the Annual Report.



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

## 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. 3,880,000/- and Rs. 1,207,785/- respectively.

## Stated Capital

The Stated Capital of the Bank is Rs.1,548,965,702/- the details are given in Note 33 to the Financial Statements.

## Internal Controls

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

## Directors' Responsibility for Financial Reporting

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

Banking Act No. 30 of 1998 and amendments thereto and the Listing Rules of the Colombo Stock Exchange.

## Corporate Governance

Since the Commercial Banks have been exempted from the Colombo Stock Exchange Corporate Governance Rules, the Bank has complied with the Central Bank Banking Act Directions on Corporate Governance and a detailed statement is given on pages 76 to 97.

## Dividends

The Board of Directors recommend the payment of a first and final dividend of Rs.0.50 (Cents 50 ) per Ordinary Share to the Shareholders of the Bank for the financial year ended 31st December 2015, subject to obtaining the approval of the Shareholders at the forth coming Annual General Meeting.

## Capital Expenditure

Expenditure on Property, Plant & Equipment at cost amounted to Rs.191,356,506/- during 2015, details of which are given in Note 23 to the Financial Statements. Expenditure on Intangible Asset at cost amounted to Rs.321,225,461/- during 2015, details of which are given in Note 24 to the Financial Statements.

## Statutory Payments

The Directors are satisfied to the best of their knowledge and belief, that statutory payments to all authorities have been paid up to date, on a timely basis.

## Shareholding

The number of registered shareholders of the Bank as at 31st December 2015 was 4,063 compared to 4,234 as at 31st December 2014. The schedule indicating the shareholder's analysis is on pages 218 to 221.

## Debentures

The Bank in September, 2015 issued 40,000,000 Rated, Unsecured, Senior, Redeemable 3 and 4 years Debentures of Rs.100/- each, which are listed on the Colombo Stock Exchange.

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

## Register of Directors and Secretaries

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

## Board Committees

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

## New Branches

One new branch was opened during the year under review, bringing the total number of branches to 79 at the end of 2015.

### 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 Hotel" on 31st March 2016. The Notice of Meeting can be found on page 236.

### 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.



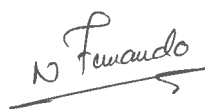
**W. D. N. H. Perera**  
Chairman



**R. E. U De Silva**  
Deputy Chairman



**P. L. D. N Seneviratne**  
Director/CEO



**N. Fernando**  
Company Secretary

Colombo  
17th February 2016

# Directors' Interest Register

Director's / Company Name	Relationship	Accommodation Granted/ Deposits / Borrowings	Balance Outstanding As at 31.12.2015 (Rs.)
<b>W. D. N. H. Perera</b>			
Amaya Leisure PLC	Director	Loans & Receivables	3,335,825
		Deposits & Borrowings	2,011,390
L B Finance PLC	Director	Deposits & Borrowings	1,069,270,256
		Off Balance Sheet Accommodation	132,321,778
Royal Ceramics Lanka PLC	Managing Director	Loans & Receivables	4,067
		Deposits & Borrowings	16,847,956
Vallibel One PLC	Deputy Chairman	Deposits & Borrowings	247,999,849
Lanka Walltiles PLC	Chairman	Deposits & Borrowings	81,960
Hayleys PLC	Director	Loans & Receivables	73,100,000
		Deposits & Borrowings	29,093
Haycarb PLC	Director	Deposits & Borrowings	123
N Capital (Pvt) Ltd	Director	Deposits & Borrowings	674
Vallibel Plantation Management Ltd	Chairman	Deposits & Borrowings	278,253
N P Capital (Pvt) Ltd	Chairman	Deposits & Borrowings	25
<b>R. E. U. De Silva</b>			
Esna Power (Pvt) Ltd	Director	Deposits & Borrowings	69,326,064
Plumbago Lanka (Pvt) Ltd	Director	Deposits & Borrowings	5,128,099
		Off Balance Sheet Accommodation	3,705,000
<b>M. D. S. Goonatileke</b>			
Hayleys PLC	Director	Loans & Receivables	73,100,000
		Deposits & Borrowings	29,093
Royal Ceramics Lanka PLC	Director	Loans & Receivables	4,067
		Deposits & Borrowings	16,847,956
Royal Porcelain (Pvt) Ltd	Director	Deposits & Borrowings	311,413
Douglas & Sons (Pvt) Ltd	Group Executive	Deposits & Borrowings	7,580
	Director		
Colombo Land Development & Investment PLC	Director	Deposits & Borrowings	15,000
<b>T. G. Thoradeniya</b>			
Lanka Walltiles PLC	Director	Deposits & Borrowings	81,960
Royal Ceramics Lanka PLC	Director	Loans & Receivables	4,067
		Deposits & Borrowings	16,847,956
Royal Porcelain (Pvt) Ltd	Director	Deposits & Borrowings	311,413
Greener Water Limited	Director	Deposits & Borrowings	10,823,141
Vallibel Plantation Management Ltd	Director	Deposits & Borrowings	278,253

Director's / Company Name	Relationship	Accommodation Granted/ Deposits / Borrowings	Balance Outstanding As at 31.12.2015 (Rs.)
<b>G. A. R. D. Prasanna</b>			
Country Energy (Pvt) Ltd	Director	Deposits & Borrowings	64,612
Delmege Forsyth & Co. (Shipping) Ltd	Director	Loans & Receivables	95,018,573
Royal Ceramics Lanka PLC	Director	Deposits & Borrowings	22,697,576
		Loans & Receivables	4,067
		Deposits & Borrowings	16,847,956
Royal Porcelain (Pvt) Ltd	Director	Deposits & Borrowings	311,413
Tekro Holdings (Pvt) Ltd	Managing Director	Deposits & Borrowings	1,650,122
Grandmark (Pvt) Ltd	Chairman	Loans & Receivables	40,810
La Fortresse (Pvt) Ltd	Director	Loans & Receivables	3,852
		Deposits & Borrowings	122,998
Delmege Insurance Brokers (Pvt) Ltd	Director	Deposits & Borrowings	51,483,743
Lewis Brown Air Services (Pvt) Ltd	Director	Deposits & Borrowings	2,750,000
Wise Property Solutions (Pvt) Ltd	Managing Director	Loans & Receivables	12,050,000
		Deposits & Borrowings	704,192
<b>T. Igarashi</b>			
NWS Holdings (Pvt) Ltd	Director	Deposits & Borrowings	2,986
NWS Management Services (Pvt) Ltd	Director	Deposits & Borrowings	296,444
Prime Ocean Foods (Pvt) Ltd	Director	Deposits & Borrowings	122,087
<b>T. Murakami</b>			
Bansei Royal Resorts Hikkaduwa PLC	Deputy Chairman	Deposits & Borrowings	54,984,988
Bansei Securities Finance (Pvt) Ltd	Director	Deposits & Borrowings	54,865,590
Vallibel Finance PLC	Director	Loans & Receivables	110,180,757
		Deposits & Borrowings	1,063,256,049
Bansei Holdings LK (Pvt) Ltd	Chairman	Deposits & Borrowings	151,290,930
Bansei & NWS Consultancy (Pvt) Ltd	Director	Deposits & Borrowings	269,875
<b>S. B. Rangamuwa</b>			
Vallibel Finance PLC	Managing Director	Loans & Receivables	110,180,757
		Deposits & Borrowings	1,063,256,049

## Other Directorships

<b>W. D. N. H. Perera - Chairman</b>		
	<b>Company Name</b>	<b>Position</b>
1.	Horana Plantations PLC	Executive Chairman
2.	N P Capital Ltd	Chairman
3.	Lanka Ceramics PLC	Chairman
4.	Swisstek Ceylon PLC	Chairman
5.	Vallibel One PLC	Deputy Chairman
6.	Royal Ceramics Lanka PLC	Managing Director
7.	Amaya Leisure PLC	Director
8.	L B Finance PLC	Director
9.	Hayleys PLC	Director
10.	Haycarb PLC	Director
11.	The Kingsbury PLC	Director
12.	Talawakele Tea Estates PLC	Director
13.	Lanka Floortiles PLC	Chairman
14.	Lanka Walltiles PLC	Chairman
15.	N Capital (Pvt) Ltd	Director
16.	UniDil Packaging Ltd	Director
17.	Swisstek Aluminum Ltd	Chairman
18.	Vallibel Plantation Management Ltd	Chairman
19.	Renuka Land (Pvt) Ltd	Director

<b>R. E. U. De. Silva - Deputy Chairman</b>		
	<b>Company Name</b>	<b>Position</b>
1.	Esna Holdings (Pvt) Ltd	Chairman
2.	Shermans Logistics (Pvt) Ltd	Chairman
3.	Shermans Transport (Pvt) Ltd	Chairman
4.	Hanjin Shipping Lanka (Pvt) Ltd	Chairman
5.	Esna (Pvt) Ltd	Deputy Chairman / Managing Director
6.	Esna Power (Pvt) Ltd	Director
7.	Esna Zinc Journeys (Pvt) Ltd	Director
8.	Sherman De Silva & Co. (Pvt) Ltd	Director
9.	Mc Marine (Pvt) Ltd	Director
10.	Sherman Sons (Pvt) Ltd	Director
11.	Esna Ventures (Pvt) Ltd	Director
12.	Esna International (Pvt) Ltd	Director
13.	Mountbatten Lands (Pvt) Ltd	Director
14.	Plumbago Lanka (Pvt) Ltd	Director
15.	Esna Lubricants (Pvt) Ltd	Director
16.	Integrated Shipping Agencies (Pvt) Ltd	Director
17.	Interocean Energy (Pvt) Ltd	Director
18.	Esna Exports (Pvt) Ltd	Director
19.	Esna Allied Enterprises (Pvt) Ltd	Director

<b>M. A. Abeynaïke - Senior Director</b>		
	<b>Company Name</b>	<b>Position</b>
1.	Asia Pacific Investments (Pvt) Ltd	Chairman
2.	Siyapatha Finance Ltd	Deputy Chairman
3.	Asia Pacific Films (Pvt) Ltd	Director

<b>M. D. S. Goonatilleke - Director</b>		
	<b>Company Name</b>	<b>Position</b>
1.	Douglas & Sons (Pvt) Ltd	Group Executive Director
2.	Royal Ceramics Lanka PLC	Director
3.	Colombo Land Development & Investment PLC	Director
4.	Hayleys PLC	Director
5.	Royal Porcelain (Pvt) Ltd	Director
6.	Rocell Bathwear Ltd	Director
7.	DSL Lanka (Pvt) Ltd	Director
8.	Hayleys Consumer (Pvt) Ltd	Director
9.	Hayleys Industrial Solutions (Pvt) Ltd	Director
10.	Hayleys Air Line Services (Pvt) Ltd	Director
11.	Interocean Automobiles (Pvt) Ltd	Director

<b>T. G. Thoradeniya - Director</b>		
	<b>Company Name</b>	<b>Position</b>
1.	Rocell Bathware Ltd	CEO
2.	Royal Ceramics Lanka PLC	Director – Marketing & Business Development
3.	Hayleys Fibre PLC	Director
4.	Delmege (Pvt) Ltd	Director
5.	Royal Porcelain (Pvt) Ltd	Director - Marketing & Business Development
6.	Royal Ceramics Distributors (Pvt) Ltd	Director - Marketing & Business Development
7.	Rocell Ceramics Ltd	Director
8.	Dipped Products (Thailand) Limited	Director
9.	Greener Water Limited	Director
10.	Lankaal Industries (Pvt) Ltd	Director
11.	Victoria Stores Ltd	Director
12.	Rocell Properties Ltd	Director
13.	Lanka Floortiles PLC	Director
14.	Lanka Walltiles PLC	Director
15.	Lanka Ceramics PLC	Director
16.	Vallibel Plantation Management Ltd	Director
17.	UniDil Packaging (Pvt) Ltd	Director

<b>G. A. R. D. Prasanna - Director</b>		
	<b>Company Name</b>	<b>Position</b>
1.	Grandmark (Pvt) Ltd	Chairman
2.	Tekro Holdings (Pvt) Ltd	Managing Director
3.	Wise Property Solutions (Pvt) Ltd	Managing Director
4.	Royal Ceramics Lanka PLC	Director
5.	Royal Porcelain (Pvt) Ltd	Director
6.	Rocell Bathware Ltd	Director
7.	Delmege Forsyth & Co. (Shipping) Ltd	Director
8.	Country Energy (Pvt) Ltd	Director
9.	La Fortresse (Pvt) Ltd	Director
10.	Delmege Forsyth & Co. (Exports) (Pvt) Ltd	Director
11.	Delmege Insurance Brokers (Pvt) Ltd	Director
12.	Rocell Properties Ltd	Director
13.	Delmege Coir (Pvt) Ltd	Director
14.	Delship Services (Pvt) Ltd	Director
15.	Delmege Freight Services (Pvt) Ltd	Director
16.	Delmege Air Services (Pvt) Ltd	Director
17.	Lewis Brown Air Services (Pvt) Ltd	Director
18.	Hayley's Global Beverages (Pvt) Ltd	Director
19.	Lanka Tiles PLC	Director

<b>S. B. Rangamuwa - Director</b>		
	<b>Company Name</b>	<b>Position</b>
1.	Vallibel Finance PLC	Managing Director
2.	Hunnas Falls PLC	Director
3.	Finance House Consortium (Pvt) Ltd	Director

<b>H. N. J. Chandrasekera - Director</b>		
	<b>Company Name</b>	<b>Position</b>
1.	Global Management Consultants (Pvt) Ltd	Executive Director
2.	Zenith BPO (Pvt) Ltd	Director

<b>P. L. D. N. Seneviratne - Director / Chief Executive Officer</b>		
	<b>Company Name</b>	<b>Position</b>
1.	Credit Information Bureau of Sri Lanka	Alternate Director
2.	Lanka Clear (Pvt) Ltd	Director

These Other Directorships are as at 31st December 2015.

<b>T. Igarashi - Director</b>		
	<b>Company Name</b>	<b>Position</b>
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

<b>T. Murakami - Director</b>		
	<b>Company Name</b>	<b>Position</b>
1.	Bansei Holdings LK (Pvt) Ltd	Chairman
2.	Bansei Royal Resorts Hikkaduwa PLC	Deputy Chairman
3.	Bansei Securities Finance (Pvt) Ltd	Director
4.	Vallibel Finance PLC	Director
5.	Bansei & NWS Consultancy (Pvt) Ltd	Director

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# 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. 7 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 Auditors given on page 125 of the Annual Report.

In terms of Sections 150 (1) and 151(1) of the Companies Act No. 7 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 2015, 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 three Directors and the Company Secretary of the Bank on 17th February 2016 as required by the 150 (1) of the Companies Act No. 7 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. 7 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 2015 is given on pages 99 & 100 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 101 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



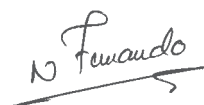
records, related data and minutes of shareholders' and Directors meetings and expressed their opinion which appears as reported by them on page 125 of this Annual Report.

Further, as required by Section 56 (2) of the Companies Act No. 7 of 2007, the Directors have confirmed that the Bank, based on the information available, satisfies the solvency test immediately after the distribution of dividends, in accordance with Section 57 of the Companies Act No. 7 of 2007, and has obtained a certificate from external auditors, prior to declaring the first and final dividend of Rs. 0.50 (Cents 50) per share.

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**  
Company Secretary

Colombo  
17th February 2016

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# 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 2015 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. 7 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 judgment 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 2015, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 99 & 100 in the Annual Report, the "Directors' Report on Bank's Internal Controls", "External Auditors' Assurance Report on the Bank's Internal Controls" is given on page 101 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 125 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 there are no material litigations that are pending against the Bank other than those disclosed in the Note 42 to the Financial Statements.
- 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.



**P. L. D. N. Seneviratne**  
Chief Executive Officer



**L. R. Jayakody**  
Chief Financial Officer

Colombo  
17th February 2016

# Bank's Compliance with Prudential Requirements

Compliance risk is the risk of legal, regulatory sanctions, material financial loss or reputation a Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self regulatory organisational standards and codes of conduct and ethics applicable to its banking activities.

## The Compliance Unit

The Bank has established a Compliance Unit which holds the responsibility for monitoring the Bank's overall Compliance Risk. The unit consistently assesses the Bank's compliance with laws, regulations, and statutory guidelines and also the internal controls and policies. The Compliance unit functions independently and is headed by the Compliance Officer (CO) who directly reports to the Board Integrated Risk Management Committee (BIRMC).

The unit also addresses the Bank's compliance with regulations such as Know Your Customer (KYC) and Anti Money Laundering (AML) functions. The regulatory/ internal requirements are disseminated to the business units for necessary action on a regular basis as the business units are responsible for embedding compliance requirements with its operations and ensuring that they operate within the boundaries set by the regulator and the Bank.

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.

## 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 frequently to ensure that all employees are adequately aware of the Bank's compliance requirements, and procedures. Further all newly recruited staff members are introduced to the Bank's compliance processes during the induction.

## Compliance Reporting

The compliance unit periodically makes a detailed report, based on the sign off given by the heads of business units on statutory and mandatory reporting requirements and the Bank's level of compliance to the Board Integrated Risk Management Committee (BIRMC) on a monthly basis.

The monthly Compliance Certificate includes,

- Significant new regulations/Directions
- Significant non compliance events. Regulatory/Potential breaches
- Compliance monitoring on regulatory and AML
- Training/awareness undertaken and/or identification of training needs.

## 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 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.

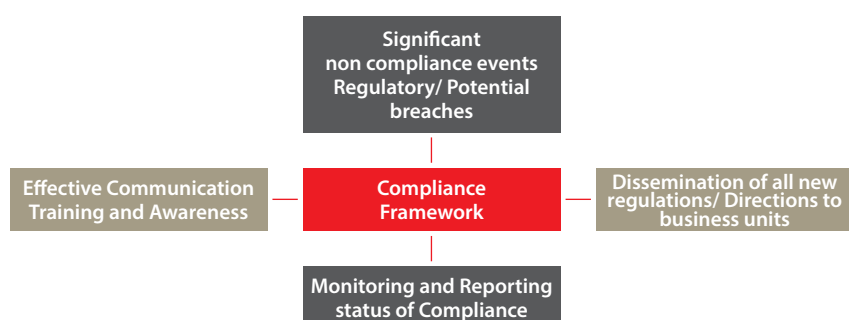
The Bank's AML Policy establishes standards of AML compliance which applies to all branches/departments and ensures strict compliance with all existing laws and regulatory requirements.

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, the 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 are reviewed and signed off by the Compliance, the Risk Management, Legal, Finance, and by Internal Audit Departments.





Financial Information

Consistent.  
Prudent.  
Value-driven.

Believe

it

Pan Asia Bank

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# Financial Calendar

## 2015

1st Quarter Unaudited Interim Results 2015	May 2015
2nd Quarter Unaudited Interim Results 2015	August 2015
3rd Quarter Unaudited Interim Results 2015	November 2015
4th Quarter Unaudited Interim Results 2015	February 2016
Annual Report for Year 2015	March 2016
21st Annual General Meeting	March 2016

## 2016

1st Quarter Unaudited Interim Results 2016	May 2016
2nd Quarter Unaudited Interim Results 2016	August 2016
3rd Quarter Unaudited Interim Results 2016	November 2016
4th Quarter Unaudited Interim Results 2016	February 2017
Annual Report for Year 2016	March 2017
22nd Annual General Meeting	March 2017

# Independent Auditors' Report



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 2015, and the statement of comprehensive income, statement of changes in equity, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 130 to 204.

### 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 evidence above the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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

2015, 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. 7 of 2007, we state the following:

- The basis of opinion and Scope and Limitations of the audit are as stated above.
- 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,
  - The financial statements of the Bank, comply with the requirements of Section 151 of the Companies Act No. 07 of 2007.

17th February 2016  
Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H Fernando FCA FCMA  
W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

A member firm of Ernst & Young Global Limited



# Statement of Comprehensive Income

Year ended 31st December	Notes	2015 Rs.	2014 Rs.
<b>Gross Income</b>		10,759,137,567	8,843,956,476
Interest Income		9,038,970,898	7,541,725,077
Interest Expense		(5,076,382,144)	(4,801,741,110)
<b>Net Interest Income</b>	4	3,962,588,754	2,739,983,967
Fees and Commission Income		816,458,748	643,868,612
Fees and Commission Expense		(48,430,131)	(15,266,803)
<b>Net Fee and Commission Income</b>	5	768,028,617	628,601,809
Net Gain from Trading	6	303,958,013	344,265,331
Net Gain from Financial Investments	7	162,000	267,390
Other Operating Income	8	599,587,908	313,830,066
<b>Total Operating Income</b>		5,634,325,292	4,026,948,563
Impairment for Loans and Other Losses	9	(750,525,148)	(814,854,354)
<b>Net Operating Income</b>		4,883,800,144	3,212,094,209
Personnel Expenses	10	1,389,141,825	1,080,880,941
Other Operating Expenses	11	1,590,658,016	1,376,704,632
<b>Total Operating Expenses</b>		2,979,799,841	2,457,585,573
<b>Operating Profit Before Value Added Tax and Nation Building Tax on Financial Services</b>		1,904,000,303	754,508,636
Value Added Tax and Nation Building Tax on Financial Services		361,870,606	216,075,298
<b>Profit Before Tax</b>		1,542,129,697	538,433,338
Income Tax Expense	12	501,611,752	123,222,628
<b>Profit for the Year</b>		1,040,517,945	415,210,710
<b>Other Comprehensive Income Net of Tax</b>			
Revaluation Surplus on Property, Plant and Equipment		-	356,158,971
Deferred Tax Effect on Above		-	(77,690,208)
		-	278,468,763
Actuarial Losses on Defined Benefit Plans		(2,602,554)	(10,852,889)
Deferred Tax Effect on Above		728,715	3,038,809
		(1,873,839)	(7,814,080)
<b>Other Comprehensive Income for the Year Net of Tax</b>		(1,873,839)	270,654,683
<b>Total Comprehensive Income for the Year</b>		1,038,644,106	685,865,393
Earnings Per Share - Basic/Diluted	13	3.53	1.41
Dividends Per Share	14	0.50	-

The Accounting Policies and Notes on pages 130 to 204 form an integral part of the Financial Statements.

# Statement of Financial Position

As at 31st December	Notes	2015 Rs.	2014 Rs.
<b>Assets</b>			
Cash and Cash Equivalents	15	1,393,268,199	1,334,405,933
Balances with Central Bank	16	4,166,740,570	3,247,643,733
Derivative Financial Instruments	17	1,543,767	5,206,464
Financial Assets - Held for Trading	18	14,706,753	1,414,698,354
Loans and Receivables to Banks	19	944,835,683	7,597,250,330
Loans and Receivables to Other Customers	20	84,185,516,138	60,346,643,277
Financial Investments - Available for Sale	21	6,157,847	6,157,847
Financial Investments - Held to Maturity	22	14,667,281,738	2,563,357,188
Property, Plant and Equipment	23	1,470,347,845	1,458,545,033
Intangible Assets	24	329,127,199	50,606,360
Other Assets	25	603,445,928	1,580,751,555
<b>Total Assets</b>		<b>107,782,971,667</b>	<b>79,605,266,074</b>
<b>Liabilities</b>			
Due to Banks	26	7,515,609,587	1,134,163,317
Derivative Financial Instruments	17	2,135,543	-
Due to Other Customers	27	77,697,054,969	64,895,224,928
Term Debt and Other Borrowed Funds	28	7,096,951,451	3,160,306,402
Current Tax Liabilities		114,935,472	-
Deferred Tax Liabilities	12	391,739,422	281,978,238
Other Provisions and Accruals	29	190,688,114	126,733,762
Other Liabilities	30	1,085,998,389	1,437,275,646
Debentures	32	7,914,585,687	3,834,954,854
<b>Total Liabilities</b>		<b>102,009,698,634</b>	<b>74,870,637,147</b>
<b>Equity</b>			
Stated Capital	33	1,548,965,702	1,548,965,702
Retained Earnings		3,711,604,606	2,718,776,673
Revaluation Reserve	34	270,706,610	276,916,333
Statutory Reserve Fund	35	241,996,115	189,970,219
<b>Total Equity</b>		<b>5,773,273,033</b>	<b>4,734,628,927</b>
<b>Total Liabilities and Equity</b>		<b>107,782,971,667</b>	<b>79,605,266,074</b>
<b>Commitments and Contingencies</b>	42	<b>26,223,207,833</b>	<b>22,200,094,564</b>

The Accounting Policies and Notes on pages 130 to 204 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.



**L. R. 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;



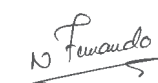
**W. D. N. H. Perera**  
Chairman



**R. E. U. De Silva**  
Deputy Chairman



**P. L. D. N. Seneviratne**  
Director/Chief Executive Officer



**N. Fernando**  
Company Secretary

17th February 2016  
Colombo

# Statement of Changes in Equity

		Stated Capital	Reserves				
	Notes	Ordinary Voting Shares	Retained Earnings	Statutory Reserve Fund	Investment Fund	Revaluation Reserve	Total
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st January 2014		1,548,965,702	1,861,682,244	169,209,683	468,905,905	-	4,048,763,534
Profit for the Year		-	415,210,710	-	-	-	415,210,710
Other Comprehensive Income for the Year		-	(7,814,080)	-	-	278,468,763	270,654,683
Transfer to Statutory Reserve Fund	35	-	(20,760,536)	20,760,536	-	-	-
Transfer from Investment Fund		-	468,905,905	-	(468,905,905)	-	-
Realisation of Revaluation Reserve	34	-	1,552,430	-	-	(1,552,430)	-
Balance as at 31st December 2014		1,548,965,702	2,718,776,673	189,970,219	-	276,916,333	4,734,628,927
Profit for the Year		-	1,040,517,945	-	-	-	1,040,517,945
Other Comprehensive Income for the Year		-	(1,873,839)	-	-	-	(1,873,839)
Transfer to Statutory Reserve Fund	35	-	(52,025,896)	52,025,896	-	-	-
Realisation of Revaluation Reserve	34	-	6,209,723	-	-	(6,209,723)	-
Balance as at 31st December 2015		1,548,965,702	3,711,604,606	241,996,115	-	270,706,610	5,773,273,033

The Accounting Policies and Notes on pages 130 to 204 form an integral part of the Financial Statements.

# Statement of Cash Flows

Year ended 31st December	Notes	2015 Rs.	2014 Rs.
<b>Cash Flows from Operating Activities</b>			
Profit Before Tax		1,542,129,697	538,433,338
<b>Adjustment for:</b>			
Other Non Cash Items Included in Profit Before Tax	40	1,008,752,993	1,024,315,867
Change in Operating Assets	40	(16,648,852,565)	(15,496,756,576)
Change in Operating Liabilities	40	21,358,683,306	10,783,491,189
Interest Expense on Debentures		477,681,762	134,708,840
Interest Expense on Term Borrowings		86,898,255	58,111,548
Defined Benefits Paid		(8,025,278)	(7,751,943)
Income Tax Paid		(99,352,639)	(90,182,464)
<b>Net Cash Flows from/(Used in) Operating Activities</b>		7,717,915,531	(3,055,630,201)
<b>Cash Flows from Investing Activities</b>			
Purchase of Property, Plant and Equipment	23	(191,356,506)	(61,679,732)
Proceeds from the Sale of Property, Plant and Equipment		74,246	572,578
Net Proceeds from Financial Investments - Held to Maturity		(12,103,924,550)	286,118,093
Purchase of Intangible Assets	24	(321,225,461)	(777,914)
<b>Net Cash Flows from/(Used in) Investing Activities</b>		(12,616,432,271)	224,233,025
<b>Cash Flows from Financing Activities</b>			
Proceeds from the Issue of Debentures		4,000,000,000	3,000,000,000
Proceeds from Term Borrowings		1,442,100,000	-
Interest Paid on Debentures		(398,050,929)	(84,447,277)
Interest Paid on Term Borrowings		(86,670,065)	(58,111,548)
<b>Net Cash Flows from Financing Activities</b>		4,957,379,006	2,857,441,175
<b>Net Increase in Cash and Cash Equivalents</b>		58,862,266	26,043,999
Cash and Cash Equivalents at 1st January	40	1,334,405,933	1,308,361,934
<b>Cash and Cash Equivalents at 31st December</b>		1,393,268,199	1,334,405,933

The Accounting Policies and Notes on pages 130 to 204 form an integral part of the Financial Statements.

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# 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 March 6, 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 2015 is 1,420 (2014:1,302). 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 ran 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 2015 have been prepared in accordance with Sri Lanka Accounting Standards comprising LKASs and SLFRSs as issued by the Institute of Chartered Accountants of Sri Lanka and comply with

requirements of Companies Act No.7 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. The Financial Statements includes Statement of Financial Position, Statement of Comprehensive Income, 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 Freehold Land and Building stated at revalued amounts which are the fair values at the date of revaluation as explained in Note 23 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 are 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 the Sri Lanka Accounting Standards.

### 2.4 Approval of Financial Statements by Directors

The Financial Statements for the year ended 31st December 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 17th February 2016.

### 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 41.

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 36, '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, judgment 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 37.

### 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 judgment 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 and Note 20 and further described in Note 38.

### 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 judgment. In making this judgment, 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 classes of assets under SLFRS 13, based on the nature, characteristics and risks of the properties. 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. Judgment 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 mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are reviewed at each reporting date and disclosed in Note 31.

### 2.6.9 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. Judgment is required to determine the amount of deferred tax

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# Notes to the Financial Statements

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.

## 2.6.11 Distinction between Investment Properties and Property, Plant and Equipment

Management requires using its judgment to determine whether a property qualifies as an investment property or a Property, Plant and Equipment. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Bank is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as Property, Plant and Equipment. The Bank assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties. Currently the Bank does not have any Investment Property.

## 2.7 Changes in Accounting Policies

The accounting policies adopted by the Bank are consistent with those of the previous financial year. 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.

## 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.

### 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 or 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 if 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.

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# Notes to the Financial Statements

## **(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 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 & Receivables to Banks and Other Customers**

'Placement with Banks, Loans & 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 & 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 & 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 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'.

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# Notes to the Financial Statements

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, geographical location, 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 20.

## **(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) Renegotiated Loans**

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, 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 renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original Effective Interest Rate.

## **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 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 margining requirements, are valued

on daily basis. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as freehold property is valued based on valuation reports and other independent sources.

#### 2.8.6 Re-classification of Financial Instruments

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement 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 election 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

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# Notes to the Financial Statements

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 plan obligations. Involvement of external valuers is decided upon annually after discussion with and approval by the Bank's Board Audit Committee wherever necessary. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Board Audit Committee whenever necessary after discussions with the Bank's external valuers decide which valuation techniques and inputs to use for each case.

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 37.2

## 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 risks 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 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



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# Notes to the Financial Statements

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 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, Plant and 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 of asset classes are as follows:

Buildings	- 40 Years
Office Equipment	- 06 Years
Computer Hardware and Equipment	- 06 Years
Furniture, Fittings and Fixtures	- 05 - 10 Years
Motor Vehicles	- 05 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 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:

Core Banking Software Licenses	- 15 Years
Other Softwares	- 08 Years

The above rates are also comparable with the rates applied in the previous year, except in the case of Core Banking Licences which carried a useful lifetime of 8 years up to 31st December 2014 .

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. As a result the useful lifetime applicable for Core Banking Software Licenses was changed to 15 years from 8 years with effect from 1st January 2015. These are considered as changes in accounting estimates, hence applied prospectively.

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.

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# Notes to the Financial Statements

## **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 (as a lessor and as a lessee) 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 42.

### **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. There were no

pending litigations against the Bank as at 31 December 2015 which would have a material impact on the financial statements other than those disclosed under Note 42.3.

### **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 'a Personnel Expenses' in the Profit or Loss in the Statement of Comprehensive Income in the periods during which services are rendered by employees. Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with the respective Statutes and Regulations. Accordingly, the Bank contributes 12% - 15% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and is recognised as an expense under "Personnel Expenses".

#### **2.8.18.2 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**

#### **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.

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# Notes to the Financial Statements

## Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Comprehensive Income (Profit or Loss).

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 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% on Bank's liable turn over and is deductible from income tax payable. With effect from 1st April 2012, ESC is payable only on exempted turnover of the Bank and is deductible from income tax payable. ESC is not payable on turnover on which income tax is payable.

## Value Added Tax on Financial Services

Value Added Tax on Financial Services is calculated at the rate of 11% in accordance with the provisions of the Value Added Tax Act No.14 of 2002 and amendments thereto.

## 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 with effective from 1st January 2014.

## 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 under Note 44.

## 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 45 to the Financial Statements.

## 2.9 Segment Reporting

The Bank's segmental reporting is based on the following operating segments: Corporate Banking, Retail Banking and Treasury functions.

Corporate Banking segment includes loans, overdrafts, other credit facilities, deposits, current accounts and other services offered to corporate customers.

Retail banking segment includes loans, overdrafts, credit card facilities, deposits, current accounts and other services offered to retail customers.

Treasury function includes trading function, financing and other central functions, use of derivative for risk management purpose, investment products and services to institutional investors and intermediaries.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Financial Statements. Income taxes and overhead expenses are managed on an entity basis and are not allocated to operating segments. Interest income is reported 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. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue.

## 2.10 Regulatory Provisions

### 2.10.1 Deposit Insurance and Liquidity Support Scheme

In terms of the Banking Act Direction No. 5 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. 1 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 1 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. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31st December 2015 reporting periods. None of those have been early adopted by the Bank.

### SLFRS 9 - Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and



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# Notes to the Financial Statements

new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39. SLFRS 9 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

## **SLFRS 14 - Regulatory Deferral Accounts**

SLFRS 14 is an interim standard which provides relief for first time -adopters of SLFRS in relation to the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). The standard permits these entities to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts. SLFRS 14 is effective for annual periods beginning on or after 1st January 2016.

## **SLFRS 15 - Revenue from Contracts with Customers**

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. SLFRS 15 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

Management believes that the SLFRS 14 would not be applicable for the Bank, as it is an existing SLFRS preparer or does not involve in rate regulatory activities. Pending the completion of the detailed impact analysis, possible Impact from SLFRS 9 and SLFRS 15 is not reasonably estimable as of the reporting date.

The following amendments and improvements are not expected to have a significant impact on the Bank's financial statements;

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LKAS 16 and LKAS 38).
- Equity Method in Separate Financial Statements (Amendments to LKAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28).
- Annual Improvements to SLFRSs 2012-2014 Cycle
- Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28).
- Disclosure Initiative (Amendments to LKAS 1).



#### 4 NET INTEREST INCOME

	2015 Rs.	2014 Rs.
<b>Interest Income</b>		
Placements with Banks	5,461,017	9,497,508
Loans and Receivables to Banks	48,672,075	208,657,214
Loans and Receivables to Other Customers	8,056,803,155	6,588,877,663
Financial Investments - Held to Maturity	547,920,125	208,395,472
Financial Assets - Held for Trading	189,367,031	314,122,217
Interest Income Accrued on Impaired Loans and Receivables	190,747,495	212,175,003
	9,038,970,898	7,541,725,077
<b>Interest Expense</b>		
Due to Banks	174,859,450	27,464,411
Due to Other Customers	4,238,107,041	4,438,849,190
Other Borrowings	185,733,891	200,718,669
Debentures	477,681,762	134,708,840
	5,076,382,144	4,801,741,110
<b>Net Interest Income</b>	<b>3,962,588,754</b>	<b>2,739,983,967</b>

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

	2015 Rs.	2014 Rs.
Interest Income	1,092,091,715	894,255,011
Interest Expense	(160,198,787)	(141,380,666)
<b>Net Interest Income</b>	<b>931,892,928</b>	<b>752,874,345</b>

The Net Interest Income from Sri Lanka Government Securities and related Financial Instruments include Interest Income from Treasury Bills/Bonds, Sri Lanka Development Bonds, Securities Purchased under Re-Sale Agreements net of Interest Expenses for Securities Sold under Re-Purchase Agreements.

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

	2015 Rs.	2014 Rs.
Interest Income	8,849,603,867	7,227,602,860
Interest Expense	(5,076,382,144)	(4,801,741,110)
<b>Net Interest Income</b>	<b>3,773,221,723</b>	<b>2,425,861,750</b>

# Notes to the Financial Statements

## 5 NET FEE AND COMMISSION INCOME

	2015 Rs.	2014 Rs.
<b>Net Fee and Commission Income</b>		
Fee and Commission Income	816,458,748	643,868,612
Fee and Commission Expense	(48,430,131)	(15,266,803)
	768,028,617	628,601,809
<b>Comprising</b>		
Loans	202,879,650	154,529,713
Cards	80,108,223	46,765,345
Trade and Remittance	344,185,380	297,742,284
Deposits	99,798,480	97,457,403
Guarantees	41,056,884	32,107,064
	768,028,617	628,601,809

## 6 NET GAIN FROM TRADING

	2015 Rs.	2014 Rs.
<b>Equities and Unit Trusts</b>		
Realised	63,777,509	200,032,542
Unrealised	(1,641,684)	5,061,859
<b>Debt Securities</b>		
Realised	143,456,771	158,003,150
Unrealised	(366,600)	(26,479,400)
Foreign Exchange - Net Forward Forex Gain	98,732,017	7,647,180
	303,958,013	344,265,331

Equities and Unit Trust Income include the results of buying and selling, dividend income and changes in the fair value of equity securities and unit trusts. Debt securities income includes the results of buying and selling and changes in the fair value of debt securities. Foreign exchange income includes gains and losses from spot and forward contracts and other currency derivatives.

## 7 NET GAIN FROM FINANCIAL INVESTMENTS

	2015 Rs.	2014 Rs.
Financial Investments Available for Sale - Equities	162,000	267,390
	162,000	267,390

## 8 OTHER OPERATING INCOME

	2015 Rs.	2014 Rs.
Non Trading Foreign Exchange Gain	544,868,212	291,062,295
Others	54,719,696	22,767,771
	599,587,908	313,830,066

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 transactions deals pertaining to customer requirements in the normal course of business.

## 9 IMPAIRMENT FOR LOANS AND OTHER LOSSES

	2015 Rs.	2014 Rs.
Loans and Receivables to Other Customers (Note 20.4)		
Individual Impairment Losses	(761,013,114)	(396,209,953)
Collective Impairment Losses	(30,625,163)	(276,965,839)
	(791,638,277)	(673,175,792)
Other Impairment (Losses)/Reversals	41,113,129	(141,678,562)
	(750,525,148)	(814,854,354)

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

	2015 Rs.	2014 Rs.
Salaries, Wages and Other Related Expenses	1,200,319,871	908,990,901
Defined Contribution Plan Expenses - Employees Provident Fund	110,851,819	94,131,705
Defined Contribution Plan Expenses - Employees Trust Fund	25,928,878	21,853,265
Defined Benefit Plan Expenses (Note 31.1)	36,043,775	30,462,226
Amortisation of Prepaid Staff Expenses	15,997,482	25,442,844
	1,389,141,825	1,080,880,941

# Notes to the Financial Statements

## 11 OTHER OPERATING EXPENSES

	2015 Rs.	2014 Rs.
Directors' Emoluments (Note 11.1)	34,256,716	31,663,225
Auditors' Remuneration	3,880,000	3,613,500
Non Audit Fees to Auditors	1,207,785	1,200,000
Professional and Legal Expenses	18,477,898	15,958,137
Depreciation of Property, Plant and Equipment	179,430,412	162,867,662
Amortisation of Intangible Assets	42,704,622	15,975,775
Operating Lease Expenses	195,822,274	173,167,129
Administration and Establishment Expenses	399,118,612	358,233,786
Advertising and Promotional Expenses	190,014,668	155,331,600
Other Expenses	525,745,029	458,693,818
	1,590,658,016	1,376,704,632

- 11.1** Directors' Emoluments represent the fees paid to Non - Executive Directors and Salaries, Bonuses and Other related expenses of Chief Executive Officer / Director.

## 12 INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31st December 2015 and 31st December 2014 are:

	2015 Rs.	2014 Rs.
Current Income Tax		
Current Income Tax Charge (Note 12.1)	424,961,606	66,682,890
Over Provisions in respect of Previous Years	(33,839,753)	-
Deferred Tax		
Relating to Origination and Reversal of Temporary Differences (Note 12.2)	110,489,899	56,539,738
Income Tax Expense Reported in the Statement of Comprehensive Income (Profit or Loss)	501,611,752	123,222,628

## 12.1 Reconciliation of the Total Tax Expense

A reconciliation between the tax expense and the accounting profit multiplied by the Statutory Income tax rate for the year ended 31st December 2015 and 31st December 2014 is as follows:

	2015 Rs.	2014 Rs.
Accounting Profit Before Tax	1,542,129,697	538,433,338
At Statutory Income Tax Rate of 28%	431,796,316	150,761,335
Non Deductible Expenses	902,735,546	627,692,798
Deductible Expenses	(884,198,170)	(661,367,070)
Income not Subject to Tax	(71,203,566)	(71,408,402)
Tax Effect of Business of Finance Leasing (Tax Losses)	45,831,480	21,004,229
Current Income Tax Charge	424,961,606	66,682,890
Effective Tax Rate (Excluding Deferred Tax and Over Provision for Current Income Tax of Previous Years)	28%	12%

## 12.2 Deferred Tax

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

	2015			2014		
	Deferred Tax Liabilities (Statement of Financial Position) Rs.	Statement of Comprehensive Income Profit or Loss Rs.	Other Comprehensive Income Rs.	Deferred Tax Liabilities (Statement of Financial Position) Rs.	Statement of Comprehensive Income Profit or Loss Rs.	Other Comprehensive Income Rs.
Lease Rentals Receivables	344,728,036	148,386,938	-	196,341,098	25,359,534	-
Property, Plant and Equipment	178,312,760	2,249,906	-	176,062,854	5,284,963	77,690,208
Intangible Assets	24,167,919	13,202,870	-	10,965,049	(1,013,973)	-
Defined Benefit Plan Obligation	(44,392,761)	(7,845,179)	(728,715)	(35,818,867)	(6,358,880)	(3,038,809)
Impairment of Assets	(15,283,648)	3,975,701	-	(19,259,349)	54,272,323	-
Tax Losses	(95,792,884)	(49,480,337)	-	(46,312,547)	(21,004,229)	-
<b>Total</b>	<b>391,739,422</b>	<b>110,489,899</b>	<b>(728,715)</b>	<b>281,978,238</b>	<b>56,539,738</b>	<b>74,651,399</b>

# Notes to the Financial Statements

## 13 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;

	2015	2014
Profit Attributable to Ordinary Shareholders (Rs.)	1,040,517,945	415,210,710
Weighted Average Number of Ordinary Shares in Issue (Note 33)	295,041,086	295,041,086
Basic/Diluted Earnings Per Share (Rs.)	3.53	1.41

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.

## 14 DIVIDENDS PER SHARE

	2015	2014
Gross Dividends Paid/Payable to Ordinary Shareholders (Rs.)	147,520,543	-
Number of Ordinary Shares in Issue	295,041,086	-
Dividends Per Share (Rs.)	0.50	-

Dividends Per Share is calculated on the basis of first and final cash dividend proposed, which is to be approved at the Annual General Meeting.

## 15 CASH AND CASH EQUIVALENTS

	2015 Rs.	2014 Rs.
Cash in Hand (Note 40)	1,255,357,401	1,110,099,943
Balances with Foreign Banks (Note 40)	137,910,798	224,305,990
	1,393,268,199	1,334,405,933

## 16 BALANCES WITH CENTRAL BANK

	2015 Rs.	2014 Rs.
Statutory Deposit with the Central Bank of Sri Lanka	4,166,740,570	3,247,643,733
	4,166,740,570	3,247,643,733

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 6% 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.

## 17 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	2015			2014		
	Assets Rs.	Liabilities Rs.	Notional Amount Rs.	Assets Rs.	Liabilities Rs.	Notional Amount Rs.
Forward Foreign Exchange Contracts and Currency Swaps	1,543,767	2,135,543	12,834,240,004	5,206,464	-	8,107,485,923
	1,543,767	2,135,543	12,834,240,004	5,206,464	-	8,107,485,923

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 is 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 37.



# Notes to the Financial Statements

## 18 FINANCIAL ASSETS - HELD FOR TRADING

	2015 Rs.	2014 Rs.
Quoted Equities (Note 18.1)	14,706,753	16,348,437
Sri Lanka Government Securities - Treasury Bills and Bonds (Note 18.2)	-	1,398,349,917
	14,706,753	1,414,698,354

### 18.1 Quoted Equities

	2015			2014		
	No. of Shares	Cost	Carrying Amount/Fair Value	No. of Shares	Cost	Carrying Amount/Fair Value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Vallibel One PLC	684,035	17,100,875	14,706,753	684,035	17,100,875	16,348,437
		17,100,875	14,706,753		17,100,875	16,348,437
Carrying Value			14,706,753			16,348,437

### 18.2 Sri Lanka Government Securities - Treasury Bills and Bonds

	2015 Rs.	2014 Rs.
Sri Lanka Government Securities - Treasury Bills and Bonds	-	1,398,349,917
	-	1,398,349,917

## 19 LOANS AND RECEIVABLES TO BANKS

	2015 Rs.	2014 Rs.
Gross Loans and Receivables to Banks	944,835,683	7,597,250,330
Less: Individual Impairment	-	-
Collective Impairment	-	-
	944,835,683	7,597,250,330

### 19.1 Product wise Analysis

	2015 Rs.	2014 Rs.
Loans and Advances		
Term Loans	449,988,011	-
	449,988,011	-
Other Receivables		
Debentures - Quoted	404,832,877	-
Securities Purchased Under Resale Agreements - Banks	90,014,795	7,597,250,330
	494,847,672	7,597,250,330
	944,835,683	7,597,250,330

## 20 LOANS AND RECEIVABLES TO OTHER CUSTOMERS

	2015 Rs.	2014 Rs.
Gross Loans and Receivables to Other Customers	86,322,651,611	63,292,721,291
Less: Individual Impairment (Note 20.4)	(1,201,653,305)	(1,923,964,610)
Collective Impairment (Note 20.4)	(935,482,168)	(1,022,113,404)
	84,185,516,138	60,346,643,277

### 20.1 Product wise Analysis

	2015 Rs.	2014 Rs.
<b>Loans and Advances</b>		
Overdrafts	17,101,700,681	14,418,732,200
Trade Finance	2,911,458,830	1,991,724,082
Credit Cards	1,466,929,682	625,292,112
Pawning & Ran Loans	1,381,923,513	1,308,198,965
Staff Loans	540,001,982	362,297,493
Term Loans		
Short - term	7,722,191,103	5,343,519,478
Long - term	33,591,884,757	23,047,998,118
Lease Rentals Receivable	8,320,679,138	5,767,025,737
Margin Trading Advances	2,724,766,374	2,110,592,746
Others	1,068,804,712	945,508,572
	76,830,340,772	55,920,889,503
<b>Other Receivables</b>		
Sri Lanka Government Securities - Sri Lanka Development Bonds	6,245,115,770	5,195,616,198
Securities Purchased Under Resale Agreements - Other Customers	984,360,303	1,000,175,824
Debentures - Quoted	2,262,834,766	1,176,039,766
	9,492,310,839	7,371,831,788
	86,322,651,611	63,292,721,291

# Notes to the Financial Statements

## 20.2 Currency wise Analysis

	2015 Rs.	2014 Rs.
Sri Lankan Rupee	75,128,453,840	54,267,574,756
United States Dollar	9,676,145,190	8,906,718,948
Japanese Yen	1,426,893,542	91,484,259
Euro	46,151,217	5,462,941
Great Britain Pound	36,119,805	11,203,813
Others	8,888,017	10,276,574
	86,322,651,611	63,292,721,291

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

Industry-wise analysis of the Loans and Receivables to other customers are given in Note 38.2. Details of Lease Rentals Receivables are given in Note 43.

## 20.3 Individually Impaired Loans and Receivables

	2015 Rs.	2014 Rs.
Gross amount of Loans and Receivables individually determined to be impaired, before deducting the Individual Impairment Losses	2,131,103,436	3,061,403,383
Less: Individual Impairment Losses (Note 20.4)	(1,201,653,305)	(1,923,964,610)
Net Exposure	929,450,131	1,137,438,773
Impairment Cover Ratio (Individual Impairment Losses to Gross Individually Impaired Loans and Receivables)	56.39%	62.85%
Impaired Loans and Receivable Ratio (Individually Impaired Loans and Receivables to Gross Loans and Receivables)	2.47%	4.84%

## 20.4 Movements in Individual and Collective Impairment During the Year

	Individual Impairment Rs.	Collective Impairment Rs.	Total Impairment Rs.
At 1st January 2014	1,655,010,750	745,005,033	2,400,015,783
Charge to Profit or Loss (Note 09)	396,209,953	276,965,839	673,175,792
Write off / Recoveries during the Year	(56,989,640)	142,532	(56,847,108)
Interest Accrued on Impaired Loans and Receivables	(212,175,003)	-	(212,175,003)
Other Movements	141,908,550	-	141,908,550
<b>At 31st December 2014</b>	<b>1,923,964,610</b>	<b>1,022,113,404</b>	<b>2,946,078,014</b>
At 1st January 2015	1,923,964,610	1,022,113,404	2,946,078,014
Charge to Profit or Loss (Note 09)	761,013,114	30,625,163	791,638,277
Write off / Recoveries during the Year	(1,494,357,844)	(117,256,399)	(1,611,614,243)
Interest Accrued on Impaired Loans and Receivables	(190,747,495)	-	(190,747,495)
Other Movements	201,780,920	-	201,780,920
<b>At 31st December 2015</b>	<b>1,201,653,305</b>	<b>935,482,168</b>	<b>2,137,135,473</b>

## 21 FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

	2015 Rs.	2014 Rs.
Equities - Unquoted (Note 21.1)	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 cannot be reliably estimated. There is no market for these investments and the Bank intends to hold these for long term.

### 21.1 Equities - Unquoted

	2015		2014	
	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

# Notes to the Financial Statements

## 22 FINANCIAL INVESTMENTS - HELD TO MATURITY

	2015 Rs.	2014 Rs.
Sri Lanka Government Securities - Treasury Bills and Bonds	14,667,281,738	2,563,357,188
	14,667,281,738	2,563,357,188

### 22.1 Financial Assets Held to Maturity Pledged as Collateral

Sri Lanka Government Securities - Treasury Bills and Bonds amounting to Rs. 7,656,800,000/- (31st December 2014 - Rs. 1,505,200,000/-) are pledged as collateral against the Borrowings under Repurchase Agreements as at the date of the Statement of Financial Position.

## 23 PROPERTY, PLANT AND EQUIPMENT

### 23.1 Cost/Fair Value

	Freehold Land Rs.	Freehold Buildings Rs.	Office Equipments Rs.	Computer Hardware & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
At 1st January 2015	492,346,500	466,053,500	320,497,594	335,495,107	482,268,534	10,997,620	2,107,658,855
Additions	-	-	23,256,684	128,606,035	39,493,787	-	191,356,506
Disposals	-	-	(88,984)	(439,980)	-	-	(528,964)
At 31st December 2015	492,346,500	466,053,500	343,665,294	463,661,162	521,762,321	10,997,620	2,298,486,397

### 23.2 Depreciation and Impairment

At 1st January 2015	-	3,611,733	189,878,070	228,852,611	220,678,788	6,092,620	649,113,822
Depreciation Charge for the Year	-	14,446,563	43,433,100	50,850,907	68,519,842	2,180,000	179,430,412
Disposals	-	-	(71,104)	(334,578)	-	-	(405,682)
At 31st December 2015	-	18,058,296	233,240,066	279,368,940	289,198,630	8,272,620	828,138,552

### 23.3 Net Book Value

At 31st December 2014	492,346,500	462,441,767	130,619,524	106,642,496	261,589,746	4,905,000	1,458,545,033
At 31st December 2015	492,346,500	447,995,204	110,425,228	184,292,222	232,563,691	2,725,000	1,470,347,845

### 23.4 There were no capitalised borrowing costs related to Property, Plant and Equipment acquired during the year (2014- Nil).

## 23.5 Freehold Land and Building

The details of the Land and Building owned by the Bank are as follows;

Location/Address	Extent		2015 Revalued Amount		2014 Revalued Amount	
	Land (Perches)	Building (Square Feet)	Land Rs.	Building Rs.	Land Rs.	Building Rs.
No: 450, Galle Road, Colombo 03	23.66	43,317	213,000,000	455,400,000	213,000,000	455,400,000
No: 08, Sea Avenue, Colombo 03	18.55	-	111,300,000	-	111,300,000	-
No: 10, Sea Avenue, Colombo 03	19.80	-	118,800,000	-	118,800,000	-
No: 12 & 12 1/ 1, Sea Avenue, Colombo 03	10.00	3,874	49,246,500	10,653,500	49,246,500	10,653,500
			492,346,500	466,053,500	492,346,500	466,053,500

- 23.6** All Freehold Land and Building owned by the Bank have been revalued by M/s Sunil Fernando Associates (Pvt) Ltd, an independent incorporated valuer and having recent experience in the location and the category of Land and Building during 2014. Details of Revalued properties are disclosed in Note 23.8. Revaluation surplus arising out of the revaluation has been transferred to Revaluation Reserve.

Significant Unobservable valuation Input

Land : Price per Perch Rs. 6,000,000- Rs. 9,000,000

Building : Monthly rent per square feet - Rs. 100 - Rs.200

Significant increase/decrease in estimated price per perch/square feet would result in a significantly higher/lower fair value. Other fair value related disclosures on Revalued Land and Building are provided in Note 37.2.

- 23.7** The Carrying amount of revalued Land and Building, if they were carried at cost less depreciation, would be as follows;

	2015			2014		
	Cost Rs.	Accumulated Depreciation Rs.	Carrying Value Rs.	Cost Rs.	Accumulated Depreciation Rs.	Carrying Value Rs.
Freehold Land	413,652,558	-	413,652,558	413,652,558	-	413,652,558
Freehold Building	223,252,527	44,296,224	178,956,303	223,252,527	36,059,384	187,193,143
Total	636,905,085	44,296,224	592,608,861	636,905,085	36,059,384	600,845,701

# Notes to the Financial Statements

**23.8** 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 Rs.	Revalued Amount Rs.	Cost Rs.	Revalued Amount Rs.
No: 450, Galle Road, Colombo 03	Sunil Fernando Associates (Pvt) Ltd	22nd September 2014	Investment Method	183,969,895	213,000,000	212,332,737	455,400,000
No: 08, Sea Avenue, Colombo 03	Sunil Fernando Associates (Pvt) Ltd	22nd September 2014	Comparison Method of Valuation	106,166,453	111,300,000	-	-
No: 10, Sea Avenue, Colombo 03				82,437,000	118,800,000	-	-
No: 12 & 12 1/1, Sea Avenue, Colombo 03				41,079,210	49,246,500	10,919,790	10,653,500

**23.9** 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;

	2015 Rs.	2014 Rs.
Office Equipments	77,482,006	57,990,412
Computer Hardware & Equipments	105,354,120	114,380,876
Furniture & Fittings	36,746,392	21,563,584
Motor Vehicles	97,620	97,620
	219,680,138	194,032,492

**23.10** There were no Property, Plant and Equipment identified as temporarily idle as at the date of the Statement of Financial Position (2014- Nil).

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

	2015 Rs.	2014 Rs.
Computer Hardware & Equipments	34,822,430	-

**23.12** There were no restrictions on the title of Property, Plant and Equipment as at the date of the Statement of Financial Position (2014 - Nil).

**23.13** There were no items of Property, Plant and Equipment pledged as securities against liabilities as at the date of the Statement of Financial Position (2014 - Nil).



## 24 INTANGIBLE ASSETS

### Computer Software

Cost	Total Rs.
At 1st January 2015	217,707,389
Additions	321,225,461
Disposals/Write off	(55,608,163)
At 31st December 2015	483,324,687
<b>Amortisation and Impairment</b>	
At 1st January 2015	167,101,029
Amortisation Charge for the Year	42,704,622
Disposals/Write off	(55,608,163)
At 31st December 2015	154,197,488
<b>Net Book Value</b>	
At 31st December 2014	50,606,360
At 31st December 2015	329,127,199

### Nature and Amortisation Method

Intangible assets include the Cost of Core Banking Licences and Other Softwares. There were no intangible asset items pledged as securities for liabilities as at the date of the Statement of Financial Position (2014-Nil). Further, there were no capitalised borrowing costs related to intangible assets acquired during the year (2014-Nil).

## 25 OTHER ASSETS

	2015 Rs.	2014 Rs.
Deposits and Prepayments	244,775,007	462,561,048
Prepaid Staff Cost	202,399,234	176,683,092
Gold Stock	-	539,086
Income Tax Receivables	-	173,732,290
Other Receivables	156,271,687	767,236,039
	603,445,928	1,580,751,555

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

# Notes to the Financial Statements

## 26 DUE TO BANKS

	2015 Rs.	2014 Rs.
Call Money Borrowings	2,830,713,683	1,058,273,213
Re-finance Borrowings	51,656,817	42,379,467
Securities Sold under Repurchase Agreements - Banks	2,602,638,630	-
Call and Term Deposits - Banks	1,858,680,790	-
Balances with Foreign Banks	171,919,667	33,510,637
	7,515,609,587	1,134,163,317

## 27 DUE TO OTHER CUSTOMERS

	2015 Rs.	2014 Rs.
Total Amount Due to Other Customers	77,697,054,969	64,895,224,928
	77,697,054,969	64,895,224,928
<b>Product wise Analysis</b>		
Demand Deposits	6,881,531,761	6,456,819,512
Savings Deposits	14,880,794,318	13,360,712,195
Time Deposits	50,480,497,583	39,743,567,880
Certificates of Deposits	4,887,366,664	4,820,759,571
Margin Deposits	566,864,643	513,365,770
	77,697,054,969	64,895,224,928
<b>Currency wise Analysis</b>		
Sri Lankan Rupee	72,192,571,462	59,943,967,541
United States Dollar	4,528,540,814	4,069,125,639
Great Britain Pound	428,675,796	373,923,478
Australian Dollar	294,677,475	292,017,694
Euro	157,358,972	75,441,346
Others	95,230,450	140,749,230
	77,697,054,969	64,895,224,928

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

## 28 TERM DEBT AND OTHER BORROWED FUNDS

	2015 Rs.	2014 Rs.
Unsecured Loan Facility Borrowings (Note 28.1)	2,884,588,118	1,321,459,929
Securities Sold Under Repurchase Agreements - Other Customers	4,212,363,333	1,838,846,473
	7,096,951,451	3,160,306,402

### 28.1 Unsecured Loan Facility Borrowings

Lender	Receipt Date	Maturity Date	Rate of Interest	Amount	
				Foreign Currency	Rs.
Global Climate Partnership Fund S.A. SICAV-SIF					
- Tranche 1	1st October 2013	30th September 2020	6 Month LIBOR + 4%	USD 10,000,000	1,442,294,059
- Tranche 2	3rd September 2015	2nd September 2022	6 Month LIBOR + 4%	USD 10,000,000	1,442,294,059
				USD 20,000,000	2,884,588,118

## 29 OTHER PROVISIONS AND ACCRUALS

	2015 Rs.	2014 Rs.
Utility Payables	59,376,890	52,022,826
Other Accruals	131,311,224	74,710,936
	190,688,114	126,733,762

## 30 OTHER LIABILITIES

	2015 Rs.	2014 Rs.
Claims Payable	573,719,138	283,082,924
Defined Benefit Plan - Retiring Gratuity Obligation (Note 31.2)	158,545,574	127,924,523
Other Creditors	353,733,677	1,026,268,199
	1,085,998,389	1,437,275,646

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

# Notes to the Financial Statements

## 31 DEFINED BENEFIT PLAN - RETIRING GRATUITY OBLIGATION

Amounts recognised in Statement of Comprehensive Income in respect of Defined Benefit Plan Costs are as follows;

### 31.1 Defined Benefit Plan Expense

	2015 Rs.	2014 Rs.
Service Cost		
Current Service Cost	23,890,945	20,082,477
Net Interest Expense	12,152,830	10,379,749
Components recognised in the Profit or Loss	36,043,775	30,462,226
Re-measurement of Net Defined Benefit Obligations		
Actuarial Losses	2,602,554	10,852,889
Components recognised in Other Comprehensive Income	2,602,554	10,852,889

### 31.2 Defined Benefit Plan - Retiring Gratuity Obligations

Movements in the present value of the Defined Benefit Plan Obligation are as follows:

	2015 Rs.	2014 Rs.
Balance at the Beginning of the Year	127,924,523	94,361,351
Current Service Cost	23,890,945	20,082,477
Interest Cost	12,152,830	10,379,749
Actuarial Losses Due to Changes in Assumptions	2,602,554	10,852,889
Benefits Paid during the Year	(8,025,278)	(7,751,943)
Balance at the End of the Year	158,545,574	127,924,523

Actuarial Valuation of Retiring Gratuity Obligation as at 31st December 2015 was carried out by Messrs. 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;

	2015	2014
Discount Rate	11.00% p.a	9.50% p.a
Salary Increment Rate	9.00% p.a	9.00% p.a

The demographic assumptions underlying the valuation are retirement age (55 years), staff turnover rate, early withdrawal from service, retirement on medical grounds, death before and after retirement, etc. Assumptions regarding future mortality are based on 1967 - 70 Mortality Table issued by the Institute of Actuaries, London.

Defined Benefit Plan Obligation is not externally funded hence, no contributions are expected for year 2015. The Defined Benefit Plan Obligation is recorded under 'Other Liabilities' in the Statement of Financial Position. Actuarial Losses of Defined Benefit Plan is recognised in Other Comprehensive Income for the year.

### 31.3 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 2015. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment rate on the Profit or Loss and Retiring Gratuity Obligation for the year.

Increase/(Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2015		2014	
		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%	-	7,033,665	( 7,033,665 )	6,247,843	(6,247,843)
(1%)	-	(7,719,535)	7,719,535	(6,903,614)	6,903,614
-	1%	(8,553,254)	8,553,254	(7,489,840)	7,489,840
-	(1%)	7,914,181	( 7,914,181 )	6,891,187	(6,891,187)

### 31.4 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;

	2015	2014
Weighted Average Duration of Defined Benefit Obligation (Years)	4.87	4.94
Average Time to Benefit Payout (Years)	4.41	4.41

# Notes to the Financial Statements

## 31.5 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.

	2015 Rs.	2014 Rs.
Less than 1 year	5,331,025	2,763,933
Between 1 - 2 years	2,093,780	1,887,320
Between 2 - 5 years	74,630,772	53,898,424
Over 5 years	76,489,997	69,374,846
	158,545,574	127,924,523

## 32 DEBENTURES

### 32.1 Amortised Cost

	2015 Rs.	2014 Rs.
Unsecured, Subordinated, Redeemable Debentures	3,828,761,423	3,834,954,854
Unsecured, Senior, Redeemable Debentures	4,085,824,264	-
	7,914,585,687	3,834,954,854

### 32.2 Capital

	Subordinated		Senior		Total
	Fixed Rs.	Floating Rs.	Fixed Rs.	Floating Rs.	Rs.
At 1st January 2015	3,140,000,000	610,000,000	-	-	3,750,000,000
Issued during the Year	-	-	2,805,196,400	1,194,803,600	4,000,000,000
At 31st December 2015	3,140,000,000	610,000,000	2,805,196,400	1,194,803,600	7,750,000,000

### 32.3 Unsecured Subordinated Redeemable Debentures

#### 2012/2017 Issue

Debentures outstanding as at 31st December 2015, includes of 750,000 Rated, Unsecured, Subordinated, Redeemable Debentures of Rs. 1,000/- each issued by the Bank in 2012 and, details of which is given below:

Debentures Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	2015 Rs.
<b>Fixed Rate Debentures</b>					
2012/2017 - 11.25% p.a.	Listed	Semi Annually	19.03.2012	18.03.2017	35,000,000
2012/2017 - 11.50% p.a.	Listed	Annually	19.03.2012	18.03.2017	55,300,000
2012/2017 - 14.50% p.a.	Listed	Maturity	19.03.2012	18.03.2017	49,700,000
					140,000,000
<b>Floating Rate Debentures</b>					
2012/2017 - 6 Months Treasury Bill Rate (Gross) + 2.95% p.a.	Listed	Semi Annually	19.03.2012	18.03.2017	610,000,000
					610,000,000
					750,000,000

#### 2014/2019 Issue

Debentures outstanding as at 31st December 2015, 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	2015 Rs.
<b>Fixed Rate Debentures</b>					
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



# Notes to the Financial Statements

## 32.4 Unsecured Senior Redeemable Debentures

### 2015/2018 and 2015/2019 Issue

Debentures outstanding as at 31st December 2015, 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	2015 Rs.
<b>Fixed Rate Debentures</b>					
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
<b>Floating Rate Debentures</b>					
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 liability during the year.

## 33 STATED CAPITAL

Voting Ordinary Shares	No. of Shares	Amount Rs.
At 1st January 2015	295,041,086	1,548,965,702
Shares Issued for Cash/Sub-Division of Shares	-	-
At 31st December 2015	295,041,086	1,548,965,702

## 34 REVALUATION RESERVE

	Amount Rs.
At 1st January 2014	-
Revaluation of Freehold Land and Building	278,468,763
Realisation of Revaluation Reserve	(1,552,430)
At 31st December 2014	276,916,333
Revaluation of Freehold Land and Building	-
Realisation of Revaluation Reserve	(6,209,723)
At 31st December 2015	270,706,610

## 35 STATUTORY RESERVE FUND

	Amount Rs.
At 1st January 2014	169,209,683
Transferred During the Year 2014	20,760,536
At 1st January 2015	189,970,219
Transferred During the Year 2015	52,025,896
At 31st December 2015	241,996,115

### 35.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required by Section 20 (1) 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 paid up capital of the Bank and thereafter a sum equivalent to 2% of such profits until the amount of reserve is equal to the paid up capital of the Bank. This Reserve Fund will be used only for the purpose specified in Section 20 (2) of the Banking Act No. 30 of 1988.

## 36 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 2.8 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying 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 2015	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.
<b>Financial Assets</b>					
Cash and Cash Equivalents	-	-	1,393,268,199	-	1,393,268,199
Balances with Central Bank	-	-	4,166,740,570	-	4,166,740,570
Derivative Financial Instruments	-	-	-	1,543,767	1,543,767
Financial Assets - Held for Trading	14,706,753	-	-	-	14,706,753
Loans and Receivables to Banks	-	-	944,835,683	-	944,835,683
Loans and Receivables to Other Customers	-	-	84,185,516,138	-	84,185,516,138
Financial Investments - Available for Sale	-	6,157,847	-	-	6,157,847
Financial Investments - Held to Maturity	-	-	14,667,281,738	-	14,667,281,738
<b>Total Financial Assets</b>	<b>14,706,753</b>	<b>6,157,847</b>	<b>105,357,642,328</b>	<b>1,543,767</b>	<b>105,380,050,695</b>
<b>Financial Liabilities</b>					
Due to Banks	-	-	7,515,609,587	-	7,515,609,587
Derivative Financial Instruments	-	-	-	2,135,543	2,135,543
Due to Other Customers	-	-	77,697,054,969	-	77,697,054,969
Term Debt and Other Borrowed Funds	-	-	7,096,951,451	-	7,096,951,451
Debentures	-	-	7,914,585,687	-	7,914,585,687
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>100,224,201,694</b>	<b>2,135,543</b>	<b>100,226,337,237</b>

# Notes to the Financial Statements

As at 31st December 2014	Financial Assets Held for Trading at Fair Value	Available for Sale Financial Assets at Fair Value	Financial Assets and Liabilities at Amortised Cost	Derivative Financial Instruments at Fair Value	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Financial Assets</b>					
Cash and Cash Equivalents	-	-	1,334,405,933	-	1,334,405,933
Balances with Central Bank	-	-	3,247,643,733	-	3,247,643,733
Derivative Financial Instruments	-	-	-	5,206,464	5,206,464
Financial Assets - Held for Trading	1,414,698,354	-	-	-	1,414,698,354
Loans and Receivables to Banks	-	-	7,597,250,330	-	7,597,250,330
Loans and Receivables to Other Customers	-	-	60,346,643,277	-	60,346,643,277
Financial Investments - Available for Sale	-	6,157,847	-	-	6,157,847
Financial Investments - Held to Maturity	-	-	2,563,357,188	-	2,563,357,188
<b>Total Financial Assets</b>	<b>1,414,698,354</b>	<b>6,157,847</b>	<b>75,089,300,461</b>	<b>5,206,464</b>	<b>76,515,363,126</b>
<b>Financial Liabilities</b>					
Due to Banks	-	-	1,134,163,317	-	1,134,163,317
Derivative Financial Instruments	-	-	-	-	-
Due to Other Customers	-	-	64,895,224,928	-	64,895,224,928
Term Debt and Other Borrowed Funds	-	-	3,160,306,402	-	3,160,306,402
Debentures	-	-	3,834,954,854	-	3,834,954,854
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>73,024,649,501</b>	<b>-</b>	<b>73,024,649,501</b>

## 37 FAIR VALUE OF FINANCIAL INSTRUMENTS

### 37.1 Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

#### (a) Derivatives

Derivative products valued with market observable inputs are mainly currency swaps and forward foreign exchange contracts. 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.

### 37.2 Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

**Level 1:** Quoted (unadjusted) prices in active markets for identical assets or liabilities

**Level 2:** Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

**Level 3:** Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

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 2015	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>Financial Assets</b>				
Derivative Financial Instruments	-	1,543,767	-	1,543,767
Financial Assets - Held for Trading				
- Equities	14,706,753	-	-	14,706,753
Financial investments - Available for Sale	-	6,157,847	-	6,157,847
	14,706,753	7,701,614	-	22,408,367
<b>Non Financial Assets</b>				
Land - Revalued	-	-	492,346,500	492,346,500
Building - Revalued	-	-	466,053,500	466,053,500
	-	-	958,400,000	958,400,000
<b>Financial Liabilities</b>				
Derivative Financial Instruments	-	2,135,543	-	2,135,543
	-	2,135,543	-	2,135,543
<b>As at 31st December 2014</b>	<b>Level 1 Rs.</b>	<b>Level 2 Rs.</b>	<b>Level 3 Rs.</b>	<b>Total Rs.</b>
<b>Financial Assets</b>				
Derivative Financial Instruments	-	5,206,464	-	5,206,464
Financial Assets - Held for Trading				
- Equities	16,348,437	-	-	16,348,437
- Sri Lanka Government Securities - Treasury Bills and Bonds	1,398,349,917	-	-	1,398,349,917
Financial investments - Available for Sale	-	6,157,847	-	6,157,847
	1,414,698,354	11,364,311	-	1,426,062,665
<b>Non Financial Assets</b>				
Land - Revalued	-	-	492,346,500	492,346,500
Building - Revalued	-	-	466,053,500	466,053,500
	-	-	958,400,000	958,400,000

# Notes to the Financial Statements

- b) The following table shows the total gains and losses (excluding interest) recognised in profit or loss during the year relating to assets and liabilities held at the year end.

	Net Trading Income	
	2015 Rs.	2014 Rs.
<b>Financial Assets</b>		
Derivative Financial Instruments	(591,776)	7,647,180
Financial Assets - Held for Trading		
- Equities	(1,641,684)	5,061,859
- Sri Lanka Government Securities - Treasury Bills and Bonds	(366,600)	(26,479,400)
	(2,600,060)	(13,770,361)

- 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.

	2015		2014	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
<b>Financial Assets</b>				
Cash and Cash Equivalents	1,393,268,199	1,393,268,199	1,334,405,933	1,334,405,933
Balances with Central Bank	4,166,740,570	4,166,740,570	3,247,643,733	3,247,643,733
Loans and Receivables to Banks	944,835,683	932,762,883	7,597,250,330	7,597,250,330
Loans and Receivables to Other Customers	84,185,516,138	84,128,875,579	60,346,643,277	60,337,910,926
Financial Investments - Held to Maturity	14,667,281,738	14,500,944,821	2,563,357,188	2,563,702,124
<b>Total Financial Assets</b>	105,357,642,328	105,122,592,052	75,089,300,461	75,080,913,046
<b>Financial Liabilities</b>				
Due to Banks	7,515,609,587	7,515,609,587	1,134,163,317	1,134,163,317
Due to Other Customers	77,697,054,969	77,213,866,045	64,895,224,928	64,423,452,860
Term Debt and Other Borrowed Funds	7,096,951,451	7,096,951,451	3,160,306,402	3,160,306,402
Debentures	7,914,585,687	7,907,035,640	3,834,954,854	3,836,458,566
<b>Total Financial Liabilities</b>	100,224,201,694	99,733,462,723	73,024,649,501	72,554,381,145

## 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 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.

### 37.3 Re-Classified Financial Assets

The Bank undertook a review of assets that were classified as 'Held for Trading' and it was determined that the Bank no longer intends to trade the quoted debentures and expect to hold for a longer period. The management reviewed the instruments to determine whether it was appropriate to reclassify it to 'Loans and Receivables'.

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 the date of transfer. There have been no further reclassifications since this date.

Type of Assets Re-Classified	2015		2014	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Debentures - Quoted	1,048,366,847	1,028,375,689	1,176,039,766	1,167,721,687
Expected Undiscounted Cash Recoveries, as Assessed at the Date of Re-Classification		395,015,883		395,015,883
Anticipated Average EIR over the Remaining Life of the Assets (%)		9.51%		9.51%

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.

	2015 Rs.
Fair value gains and losses which would otherwise have been recorded after reclassification, during the current Year	(52,450,409)
Interest Income which would otherwise have been recorded after reclassification, during the current Year	41,277,807
Total Profit or (Loss) which would otherwise have been recorded during the year	(11,172,602)
Total Profit or (Loss) which would otherwise have been recorded since reclassification	(19,076,408)

# Notes to the Financial Statements

## 38 RISK MANAGEMENT

### 38.1 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 compliance, appointment of external auditors, their remuneration 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 risk 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

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 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 action taken.



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# Notes to the Financial Statements

## **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 its main responsibilities by approving the periodic strategic plan and significant amendments to the existing strategic plan and recommending the same 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 and acquisitions and recommending the same to the Board, reviewing the adequacy and composition of the Bank's capital structure in the context of the growth targets.

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.

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, 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 Head office Credit Committee/Board Credit Committee for approval.

## **38.2 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 portfolio. The Bank's risk appetite is 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 high rated customers.
- b) Loan approval and sanction of credit facilities - Clear guidelines and policies have been established for loan approvals/renewals within delegated credit approval authorities
- c) Credit administration and disbursement is performed by Credit Administration Unit, independently reporting to Chief Executive Officer 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) 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 Head Office Credit Committee and Board Credit Committee levels.
- e) Non performing advances are managed by the Legal and Recoveries divisions. 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 and significant exposures are vetted through special panel valuation committee for opinion.

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# Notes to the Financial Statements

## **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. 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 II.

## **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.

Financial guarantees and letters of credit are assessed in a similar manner as for loans.

### 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 Collaterals 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.

The following table shows the maximum exposure to credit risk by class of financial asset and the value of financial assets, covered by collateral.

#### Maximum Exposure to Credit Risk

	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
<b>As at 31st December 2015</b>		
Balances with Central Bank	4,166,740,570	4,166,740,570
Derivative Financial Instruments	1,543,767	1,543,767
Financial Assets - Held for Trading	14,706,753	14,706,753
Loans and Receivables to Banks	944,835,683	540,002,806
Loans and Receivables to Other Customers - Gross	86,322,651,611	12,763,008,060
Financial Investments - Available for Sale	6,157,847	6,157,847
Financial Investments - Held to Maturity	14,667,281,738	14,667,281,738
	106,123,917,969	32,159,441,541
<b>As at 31st December 2014</b>		
Balances with Central Bank	3,247,643,733	3,247,643,733
Derivative Financial Instruments	5,206,464	5,206,464
Financial Assets - Held for Trading	1,414,698,354	1,414,698,354
Loans and Receivables to Banks	7,597,250,330	-
Loans and Receivables to Other Customers - Gross	63,292,721,291	7,989,291,488
Financial Investments - Available for Sale	6,157,847	6,157,847
Financial Investments - Held to Maturity	2,563,357,188	2,563,357,188
	78,127,035,207	15,226,355,074

# 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 2015	Neither Past Due Nor Impaired		Past Due But Not Impaired				Individually Impaired		Total
	Rs.	Upto 90 Days Rs.	91-180 Days Rs.	181-360 Days Rs.	361-540 Days Rs.	Over 540 Days Rs.	Rs.		
Cash and Cash Equivalents	1,393,268,199	-	-	-	-	-	-	-	1,393,268,199
Balances with Central Bank	4,166,740,570	-	-	-	-	-	-	-	4,166,740,570
Derivative Financial Instruments	1,543,767	-	-	-	-	-	-	-	1,543,767
Financial Assets - Held for Trading	14,706,753	-	-	-	-	-	-	-	14,706,753
Loans and Receivables to Banks	944,835,683	-	-	-	-	-	-	-	944,835,683
Loans and Receivables to Other Customers	71,883,103,161	9,379,456,611	1,315,703,463	670,132,997	255,109,469	688,042,474	2,131,103,436	86,322,651,611	
Financial Investments - Available for Sale	6,157,847	-	-	-	-	-	-	-	6,157,847
Financial Investments - Held to Maturity	14,667,281,738	-	-	-	-	-	-	-	14,667,281,738
Total	93,077,637,718	9,379,456,611	1,315,703,463	670,132,997	255,109,469	688,042,474	2,131,103,436	107,517,186,168	

As at 31st December 2014	Neither Past Due Nor Impaired		Past Due But Not Impaired				Individually Impaired		Total
	Rs.	Upto 90 Days Rs.	91-180 Days Rs.	181-360 Days Rs.	361-540 Days Rs.	Over 540 Days Rs.	Rs.		
Cash and Cash Equivalents	1,334,405,933	-	-	-	-	-	-	-	1,334,405,933
Balances with Central Bank	3,247,643,733	-	-	-	-	-	-	-	3,247,643,733
Derivative Financial Instruments	5,206,464	-	-	-	-	-	-	-	5,206,464
Financial Assets - Held for Trading	1,414,698,354	-	-	-	-	-	-	-	1,414,698,354
Loans and Receivables to Banks	7,597,250,330	-	-	-	-	-	-	-	7,597,250,330
Loans and Receivables to Other Customers	52,688,507,191	5,281,414,773	619,235,815	512,915,024	311,157,830	818,087,275	3,061,403,383	63,292,721,291	
Financial Investments - Available for Sale	6,157,847	-	-	-	-	-	-	-	6,157,847
Financial Investments - Held to Maturity	2,563,357,188	-	-	-	-	-	-	-	2,563,357,188
Total	68,857,227,040	5,281,414,773	619,235,815	512,915,024	311,157,830	818,087,275	3,061,403,383	79,461,441,140	

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 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	2015 Rs.	2014 Rs.
Risk Rating Grade 1	High Safety	45,008,063,482	20,690,729,116
Risk Rating Grade 2	Moderate Safety	25,881,182,110	27,960,444,752
Risk Rating Grade 3	Needs Monitoring	2,503,882,653	3,914,462,265
Risk Rating Grade 4	Substandard Risk	3,740,367,913	2,236,835,580
Risk Rating Grade 5	Very High Risk	146,832,625	1,118,417,790
		77,280,328,783	55,920,889,503

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 2015 was Rs 2,951,140,000 /- (2014: Rs.1,338,635,520/-), before taking account of collateral.

# Notes to the Financial Statements

## Industry Analysis

As at 31st December 2015	Government	Agriculture & Fishing	Manufacturing	Tourism
	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,255,357,401	-	-	-
Balances with Central Bank	4,166,740,570	-	-	-
Derivative Financial Instruments	-	-	-	-
Financial Assets - Held for Trading	-	-	-	-
Loans and Receivables to Banks - Gross	-	-	-	-
Loans and Receivables to Other Customers - Gross	6,245,115,770	9,641,731,045	9,124,409,664	3,168,371,593
Financial Investments - Available for Sale	-	-	-	-
Financial Investments - Held to Maturity	14,667,281,738	-	-	-
	26,334,495,479	9,641,731,045	9,124,409,664	3,168,371,593

As at 31st December 2014	Government	Agriculture & Fishing	Manufacturing	Tourism
	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,110,099,943	-	-	-
Balances with Central Bank	3,247,643,733	-	-	-
Derivative Financial Instruments	-	-	-	-
Financial Assets - Held for Trading	1,398,349,917	-	-	-
Loans and Receivables to Banks - Gross	-	-	-	-
Loans and Receivables to Other Customers - Gross	5,195,616,198	7,269,715,635	12,209,320,568	1,118,417,790
Financial Investments - Available for Sale	-	-	-	-
Financial Investments - Held to Maturity	2,563,357,188	-	-	-
	13,515,066,979	7,269,715,635	12,209,320,568	1,118,417,790

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

Transport	Construction	Traders	New Economy	Financial & Business Services	Infrastructure	Other Services	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	-	-	-	137,910,798	-	-	1,393,268,199
-	-	-	-	-	-	-	4,166,740,570
-	-	-	-	1,543,767	-	-	1,543,767
-	-	-	-	14,706,753	-	-	14,706,753
-	-	-	-	944,835,683	-	-	944,835,683
1,391,518,137	15,363,093,370	8,316,174,758	836,737,953	14,928,440,736	24,498,490	17,282,560,095	86,322,651,611
-	-	-	-	6,157,847	-	-	6,157,847
-	-	-	-	-	-	-	14,667,281,738
1,391,518,137	15,363,093,370	8,316,174,758	836,737,953	16,033,595,584	24,498,490	17,282,560,095	107,517,186,168

Transport	Construction	Traders	New Economy	Financial & Business Services	Infrastructure	Other Services	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	-	-	-	224,305,990	-	-	1,334,405,933
-	-	-	-	-	-	-	3,247,643,733
-	-	-	-	5,206,464	-	-	5,206,464
-	-	-	-	16,348,437	-	-	1,414,698,354
-	-	-	-	7,597,250,330	-	-	7,597,250,330
3,914,462,265	7,828,924,530	8,156,292,183	559,208,895	8,652,629,802	1,118,417,790	7,269,715,635	63,292,721,291
-	-	-	-	6,157,847	-	-	6,157,847
-	-	-	-	-	-	-	2,563,357,188
3,914,462,265	7,828,924,530	8,156,292,183	559,208,895	16,501,898,870	1,118,417,790	7,269,715,635	79,461,441,140



# Notes to the Financial Statements

## 38.3 Liquidity Risk

Liquidity Risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Hence, the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis.

### 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 Asset and Liabilities Committee is responsible for managing this risk through continuous monitoring of the set benchmarks and controlling risks by adopting appropriate strategies through advances, deposits and investment products. Contractual maturities of assets and liabilities, Sensitivity of Assets and Liabilities, key liquidity ratios and monthly liquidity gaps are reviewed at ALCO meetings as measures to liquidity. The Bank maintains a portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of expected cash 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. Intra-day liquidity management is about managing the daily payments and cash flows. The Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment systems.

The contractual maturities of assets and liabilities of the Bank as at reporting dates are detailed in Note 38.3.

The policy of the Bank is to maintain adequate liquidity at all times, at all locations and for all currencies and hence to be in a position in the normal course of business, to meet obligations, repay depositors and fulfill commitments. As a part of liquidity management, the Bank maintains borrowing relationships to ensure the continued access to diverse market of funding sources. The Bank's sound credit rating together with excellent market reputation has enabled the Bank to secure ample call lines with local and foreign Banks.

In addition, the Bank maintains a Statutory Deposit with the Central Bank of Sri Lanka equal to 6% (w.e.f. 16th January 2016 : 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 Statutory Liquid Asset Ratio to customer liabilities, to reflect market conditions. The significant liquidity ratios during the year were as follows:

### Liquidity Ratios

#### Advances to Deposit Ratios

	2015	2014
Average	93.72%	82.34%
Year-end	98.66%	85.30%

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 loans and advances to customers (excluding receivables) as a percentage of deposits with Banks and Other customers. Cheques and drafts purchased which are deemed to be liquid, are excluded from the advances to deposit ratio.

### Statutory Liquid Asset Ratio

	2015	2014
Average		
Domestic Banking Unit	23.76%	23.77%
Foreign Currency Banking Unit	37.43%	29.82%
Year-End		
Domestic Banking Unit	24.39%	21.88%
Foreign Currency Banking Unit	50.63%	22.27%

The Bank maintains a healthy Statutory Liquid Asset Ratio (SLAR) at Bank level and at Domestic and Foreign 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, Investments in Standing Deposit Facility, Gilt Edged 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 Cover Ratio (LCR)

In addition to Statutory Liquid Asset Ratio (SLAR) requirement, the Bank ensures compliance with Liquidity Coverage Ratio (LCR) requirement in accordance with Direction No. 1 of 2015 on 'Liquidity Coverage Ratio (LCR) under BASEL III Liquidity Standards for Licensed Commercial Banks and Licensed Specialised Banks'.

The Bank maintained sufficient 'High Quality Liquid Assets (HQLA)' during the year to meet minimum statutory requirements (60%) for HQLA of both Sri Lankan Rupees as well as all currencies with effective from 1st April 2015.

	2015
Average	
Rupee LCR	94.36%
All Currency LCR	133.04%
Year End	
Rupee LCR	96.81%
All Currency LCR	143.86%

However, minimum LCR requirement will be increased up to 100% by 1st January 2019 on a 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%

# Notes to the Financial Statements

## Analysis of Assets and Liabilities by Remaining Contractual Maturities

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.

## Contractual Maturities of Undiscounted Cash Flows of Assets and Liabilities

As at 31st December 2015	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
<b>Financial Assets</b>					
Cash and Cash Equivalents	1,393,268,199	-	-	-	1,393,268,199
Balances with Central Bank	4,166,740,570	-	-	-	4,166,740,570
Derivative Financial Instruments	1,543,767	-	-	-	1,543,767
Financial Assets - Held for Trading	14,706,753	-	-	-	14,706,753
Loans and Receivables to Banks	110,691,040	64,145,423	769,999,220	-	944,835,683
Loans and Receivables to Other Customers	38,384,965,186	7,972,701,159	32,670,307,475	5,157,542,318	84,185,516,138
Financial Investments - Available for Sale	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	501,989,658	6,569,173,660	7,544,178,880	51,939,540	14,667,281,738
<b>Total Undiscounted Financial Assets</b>	<b>44,573,905,173</b>	<b>14,606,020,242</b>	<b>40,984,485,575</b>	<b>5,215,639,705</b>	<b>105,380,050,695</b>
<b>Non Financial Assets</b>					
Property, Plant and Equipment	-	-	-	1,470,347,845	1,470,347,845
Intangible Assets	-	-	-	329,127,199	329,127,199
Other Assets	135,873,204	201,353,791	123,718,661	142,500,272	603,445,928
<b>Total Undiscounted Non-Financial Assets</b>	<b>135,873,204</b>	<b>201,353,791</b>	<b>123,718,661</b>	<b>1,941,975,316</b>	<b>2,402,920,972</b>
<b>Total Undiscounted Assets</b>	<b>44,709,778,377</b>	<b>14,807,374,033</b>	<b>41,108,204,236</b>	<b>7,157,615,021</b>	<b>107,782,971,667</b>
<b>Financial Liabilities</b>					
Due to Banks	4,101,290,297	2,635,250,145	779,069,145	-	7,515,609,587
Derivative Financial Instruments	2,135,543	-	-	-	2,135,543
Due to Other Customers	44,408,344,451	24,770,750,103	7,798,770,873	719,189,542	77,697,054,969
Term Debt and Other Borrowed Funds	3,221,451,285	991,300,166	-	2,884,200,000	7,096,951,451
Debentures	23,182,456	139,341,358	7,752,061,873	-	7,914,585,687
<b>Total Undiscounted Financial Liabilities</b>	<b>51,756,404,032</b>	<b>28,536,641,772</b>	<b>16,329,901,891</b>	<b>3,603,389,542</b>	<b>100,226,337,237</b>
<b>Non Financial Liabilities</b>					
Current Tax Liabilities	-	114,935,472	-	-	114,935,472
Deferred Tax Liabilities	-	-	-	391,739,422	391,739,422
Other Provisions and Accruals	190,688,114	-	-	-	190,688,114
Other Liabilities	573,719,137	359,064,703	76,724,552	76,489,997	1,085,998,389
<b>Total Undiscounted Non-Financial Liabilities</b>	<b>764,407,251</b>	<b>474,000,175</b>	<b>76,724,552</b>	<b>468,229,419</b>	<b>1,783,361,397</b>
<b>Total Undiscounted Liabilities</b>	<b>52,520,811,283</b>	<b>29,010,641,947</b>	<b>16,406,626,443</b>	<b>4,071,618,961</b>	<b>102,009,698,634</b>
<b>Net Undiscounted Financial Assets/ (Liabilities)</b>	<b>(7,182,498,859)</b>	<b>(13,930,621,530)</b>	<b>24,654,583,684</b>	<b>1,612,250,163</b>	<b>5,153,713,458</b>
<b>Net Undiscounted Assets/(Liabilities)</b>	<b>(7,811,032,906)</b>	<b>(14,203,267,914)</b>	<b>24,701,577,793</b>	<b>3,085,996,060</b>	<b>5,773,273,033</b>

As at 31st December 2014	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
<b>Financial Assets</b>					
Cash and Cash Equivalents	1,334,405,933	-	-	-	1,334,405,933
Balances with Central Bank	3,247,643,733	-	-	-	3,247,643,733
Derivative Financial Instruments	5,206,464	-	-	-	5,206,464
Financial Assets - Held for Trading	1,414,698,354	-	-	-	1,414,698,354
Loans and Receivables to Banks	7,597,250,330	-	-	-	7,597,250,330
Loans and Receivables to Other Customers	30,700,842,480	6,340,576,939	20,864,954,044	2,440,269,814	60,346,643,277
Financial Investments - Available for Sale	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	518,820,605	2,044,536,583	-	-	2,563,357,188
<b>Total Undiscounted Financial Assets</b>	<b>44,818,867,899</b>	<b>8,385,113,522</b>	<b>20,864,954,044</b>	<b>2,446,427,661</b>	<b>76,515,363,126</b>
<b>Non Financial Assets</b>					
Property, Plant and Equipment	-	-	-	1,458,545,033	1,458,545,033
Intangible Assets	-	-	-	50,606,360	50,606,360
Other Assets	1,050,723,960	271,726,271	139,345,405	118,955,919	1,580,751,555
<b>Total Undiscounted Non-Financial Assets</b>	<b>1,050,723,960</b>	<b>271,726,271</b>	<b>139,345,405</b>	<b>1,628,107,312</b>	<b>3,089,902,948</b>
<b>Total Undiscounted Assets</b>	<b>45,869,591,859</b>	<b>8,656,839,793</b>	<b>21,004,299,449</b>	<b>4,074,534,973</b>	<b>79,605,266,074</b>
<b>Financial Liabilities</b>					
Due to Banks	1,091,783,850	16,623,226	25,756,241	-	1,134,163,317
Due to Other Customers	37,312,102,746	22,091,267,370	5,489,344,264	2,510,548	64,895,224,928
Term Debt and Other Borrowed Funds	1,125,446,721	713,559,681	-	1,321,300,000	3,160,306,402
Debentures	-	84,954,854	3,750,000,000	-	3,834,954,854
<b>Total Undiscounted Financial Liabilities</b>	<b>39,529,333,317</b>	<b>22,906,405,131</b>	<b>9,265,100,505</b>	<b>1,323,810,548</b>	<b>73,024,649,501</b>
<b>Non Financial Liabilities</b>					
Deferred Tax Liabilities	-	-	-	281,978,238	281,978,238
Other Provisions and Accruals	126,733,762	-	-	-	126,733,762
Other Liabilities	1,293,318,663	12,262,026	65,119,837	66,575,120	1,437,275,646
<b>Total Undiscounted Non-Financial Liabilities</b>	<b>1,420,052,425</b>	<b>12,262,026</b>	<b>65,119,837</b>	<b>348,553,358</b>	<b>1,845,987,646</b>
<b>Total Undiscounted Liabilities</b>	<b>40,949,385,742</b>	<b>22,918,667,157</b>	<b>9,330,220,342</b>	<b>1,672,363,906</b>	<b>74,870,637,147</b>
<b>Net Undiscounted Financial Assets/ (Liabilities)</b>	<b>5,289,534,582</b>	<b>(14,521,291,609)</b>	<b>11,599,853,539</b>	<b>1,122,617,113</b>	<b>3,490,713,625</b>
<b>Net Undiscounted Assets/(Liabilities)</b>	<b>4,920,206,117</b>	<b>(14,261,827,364)</b>	<b>11,674,079,107</b>	<b>2,402,171,067</b>	<b>4,734,628,927</b>

# Notes to the Financial Statements

## 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 2015	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
<b>Contingencies</b>					
Guarantees	1,205,145,575	1,430,476,433	266,696,044	-	2,902,318,052
Documentary Credit	1,403,348,334	369,044,882	-	-	1,772,393,216
Forward Foreign Exchange Contracts/ Currency Swaps	12,834,240,004	-	-	-	12,834,240,004
Collection Bills	497,331,643	1,458,076,716	295,188,499	-	2,250,596,858
	15,940,065,556	3,257,598,031	561,884,543	-	19,759,548,130
<b>Commitments</b>					
Undrawn Credit Lines	6,463,659,703	-	-	-	6,463,659,703
	6,463,659,703	-	-	-	6,463,659,703
<b>Total</b>	<b>22,403,725,259</b>	<b>3,257,598,031</b>	<b>561,884,543</b>	<b>-</b>	<b>26,223,207,833</b>

As at 31st December 2014	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
<b>Contingencies</b>					
Guarantees	1,020,543,881	1,751,778,274	382,673,316	-	3,154,995,471
Documentary Credit	1,763,574,469	1,632,234,410	-	880,474	3,396,689,353
Forward Foreign Exchange Contracts/ Currency Swaps	8,107,485,923	-	-	-	8,107,485,923
Collection Bills	624,423,628	1,830,684,947	370,623,257	-	2,825,731,832
	11,516,027,901	5,214,697,631	753,296,573	880,474	17,484,902,579
<b>Commitments</b>					
Undrawn Credit Lines	4,715,191,985	-	-	-	4,715,191,985
	4,715,191,985	-	-	-	4,715,191,985
<b>Total</b>	<b>16,231,219,886</b>	<b>5,214,697,631</b>	<b>753,296,573</b>	<b>880,474</b>	<b>22,200,094,564</b>

### 38.4 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. The Bank has initiated improvements in market risk management function this year enhancing the qualified and experienced staff base.

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, The 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 (SAL) according to Central Bank of Sri Lanka 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.

	2015	2014
Increase in interest rates	2%	2%
Effect on Profit or Loss and Equity (Rs.)	182,800,480	29,194,962
Decrease in interest rates	(2%)	(2%)
Effect on Profit or Loss and Equity (Rs.)	(207,466,858)	(11,907,273)

# Notes to the Financial Statements

## Interest Rate Sensitivity Analysis

The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities. The Bank's Financial Assets and Liabilities are included at carrying amount and categorised by earlier of contractual re-pricing or maturity dates.

As at 31st December 2015	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.
<b>Financial Assets</b>						
Cash and Cash Equivalents	-	-	-	-	1,393,268,199	1,393,268,199
Balances with Central Bank	-	-	-	-	4,166,740,570	4,166,740,570
Derivative Financial Instruments	-	-	-	-	1,543,767	1,543,767
Financial Assets - Held for Trading	-	-	-	-	14,706,753	14,706,753
Loans and Receivables to Banks	90,014,795	449,988,011	404,832,877	-	-	944,835,683
Loans and Receivables to Other Customers	47,569,381,219	26,240,595,594	9,787,237,164	588,302,161	-	84,185,516,138
Financial Investments - Available for Sale	-	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	501,989,658	6,569,173,660	7,544,178,880	51,939,540	-	14,667,281,738
<b>Total Undiscounted Financial Assets</b>	<b>48,161,385,672</b>	<b>33,259,757,265</b>	<b>17,736,248,921</b>	<b>640,241,701</b>	<b>5,582,417,136</b>	<b>105,380,050,695</b>
<b>Financial Liabilities</b>						
Due to Banks	3,929,370,630	2,635,250,145	779,069,145	-	171,919,667	7,515,609,587
Derivative Financial Instruments	-	-	-	-	2,135,543	2,135,543
Due to Other Customers	44,408,344,451	24,770,750,103	7,798,770,873	719,189,542	-	77,697,054,969
Term Debt and Other Borrowed Funds	3,221,451,285	3,875,500,166	-	-	-	7,096,951,451
Debentures	633,182,456	1,334,144,958	5,947,258,273	-	-	7,914,585,687
<b>Total Undiscounted Financial Liabilities</b>	<b>52,192,348,822</b>	<b>32,615,645,372</b>	<b>14,525,098,291</b>	<b>719,189,542</b>	<b>174,055,210</b>	<b>100,226,337,237</b>
<b>Total Interest Rate Sensitivity Gap</b>	<b>(4,030,963,150)</b>	<b>644,111,893</b>	<b>3,211,150,630</b>	<b>(78,947,841)</b>	<b>5,408,361,926</b>	<b>5,153,713,458</b>

As at 31st December 2014	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.
<b>Financial Assets</b>						
Cash and Cash Equivalents	-	-	-	-	1,334,405,933	1,334,405,933
Balances with Central Bank	-	-	-	-	3,247,643,733	3,247,643,733
Derivative Financial Instruments	-	-	-	-	5,206,464	5,206,464
Financial Assets - Held for Trading	1,398,349,917	-	-	-	16,348,437	1,414,698,354
Loans and Receivables to Banks	7,597,250,330	-	-	-	-	7,597,250,330
Loans and Receivables to Other Customers	45,262,342,469	6,881,881,353	7,465,529,657	666,643,649	70,246,149	60,346,643,277
Financial Investments - Available for Sale	-	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	518,820,605	2,044,536,583	-	-	-	2,563,357,188
<b>Total Undiscounted Financial Assets</b>	<b>54,776,763,321</b>	<b>8,926,417,936</b>	<b>7,465,529,657</b>	<b>666,643,649</b>	<b>4,680,008,563</b>	<b>76,515,363,126</b>
<b>Financial Liabilities</b>						
Due to Banks	1,058,273,213	16,623,226	25,756,241	-	33,510,637	1,134,163,317
Due to Other Customers	30,341,917,464	22,091,267,370	5,489,344,264	2,510,548	6,970,185,282	64,895,224,928
Term Debt and Other Borrowed Funds	1,125,446,721	2,034,859,681	-	-	-	3,160,306,402
Debentures	-	694,954,854	140,000,000	3,000,000,000	-	3,834,954,854
<b>Total Undiscounted Financial Liabilities</b>	<b>32,525,637,398</b>	<b>24,837,705,131</b>	<b>5,655,100,505</b>	<b>3,002,510,548</b>	<b>7,003,695,919</b>	<b>73,024,649,501</b>
<b>Total Interest Rate Sensitivity Gap</b>	<b>22,251,125,923</b>	<b>(15,911,287,195)</b>	<b>1,810,429,152</b>	<b>(2,335,866,899)</b>	<b>(2,323,687,356)</b>	<b>3,490,713,625</b>



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# Notes to the Financial Statements

## **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.

## **38.5 Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The Bank recognises the significance of operational risk, which is inherent in all areas of business. This includes legal risk but excludes strategic and reputation risk. Operational risks 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 a 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.

### 39 NET ASSET VALUE PER ORDINARY SHARE

	2015	2014
Total Equity Holders Funds (Rs.)	5,773,273,033	4,734,628,927
Number of Ordinary Shares in Issue	295,041,086	295,041,086
Net Assets Per Share (Rs.)	19.57	16.05

### 40 ADDITIONAL CASH FLOW INFORMATION

#### Cash and Cash Equivalents for Cash Flow Purpose

	2015 Rs.	2014 Rs.
Cash in Hand (Note 15)	1,255,357,401	1,110,099,943
Balances with Foreign Banks (Note 15)	137,910,798	224,305,990
	1,393,268,199	1,334,405,933

The Statutory Deposits 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.

#### Change in Operating Assets

	2015 Rs.	2014 Rs.
Net Change in Statutory Deposit with Central Bank of Sri Lanka	(919,096,837)	(448,061,818)
Net Change in Derivative Financial Instruments	3,662,697	(2,448,248)
Net Change in Financial Assets Held for Trading	1,399,991,601	7,755,716,713
Net Change in Loans and Receivables to Banks	6,652,414,647	(7,585,248,187)
Net Change in Loans and Receivables to Other Customers	(24,589,398,009)	(16,291,132,648)
Net Change in Other Assets	803,573,336	1,074,417,612
	(16,648,852,565)	(15,496,756,576)

# Notes to the Financial Statements

## Change in Operating Liabilities

	2015 Rs.	2014 Rs.
Net Change in Due to Banks	6,381,446,270	(727,401,741)
Net Change in Other Borrowed Funds	2,494,316,859	278,360,459
Net Change in Derivative Financial Instruments	2,135,543	(24,634,054)
Net Change in Due to Other Customers	12,801,830,041	11,059,327,528
Net Change in Other Provisions and Accruals	63,954,352	48,185,824
Net Change in Other Liabilities	(384,999,759)	149,653,173
	21,358,683,306	10,783,491,189

## Other Non-Cash Items Included in Profit Before Tax

	2015 Rs.	2014 Rs.
Depreciation of Property, Plant and Equipment	179,430,412	162,867,662
Amortisation of Intangible Assets	42,704,622	15,975,775
Loss/(Profit) on Disposal of Property, Plant and Equipment	49,036	155,850
Impairment Losses on Loans and Receivables	791,638,277	673,175,792
Other Impairment Losses / (Reversals)	(41,113,129)	141,678,562
Defined Benefit Plan Expenses	36,043,775	30,462,226
	1,008,752,993	1,024,315,867

## Operational Cash Flows from Interest and Dividends

	2015 Rs.	2014 Rs.
Interest Paid	3,813,544,014	4,862,262,979
Interest Received	8,651,700,021	7,537,482,760
Dividends Received	504,018	541,004

## 41 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 2015	Within 12 months Rs.	After 12 months Rs.	Total Rs.
<b>Assets</b>			
Cash and Cash Equivalents	1,393,268,199	-	1,393,268,199
Balances with Central Bank	4,166,740,570	-	4,166,740,570
Derivative Financial Instruments	1,543,767	-	1,543,767
Financial Assets - Held for Trading	14,706,753	-	14,706,753
Loans and Receivables to Banks	174,836,463	769,999,220	944,835,683
Loans and Receivables to Other Customers	46,357,666,345	37,827,849,793	84,185,516,138
Financial Investments - Available for Sale	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	7,071,163,318	7,596,118,420	14,667,281,738
Property, Plant and Equipment	-	1,470,347,845	1,470,347,845
Intangible Assets	-	329,127,199	329,127,199
Other Assets	337,226,995	266,218,933	603,445,928
<b>Total Assets</b>	<b>59,517,152,410</b>	<b>48,265,819,257</b>	<b>107,782,971,667</b>
<b>Liabilities</b>			
Due to Banks	6,736,540,442	779,069,145	7,515,609,587
Derivative Financial Instruments	2,135,543	-	2,135,543
Due to Other Customers	69,179,094,554	8,517,960,415	77,697,054,969
Term Debt and Other Borrowed Funds	4,212,751,451	2,884,200,000	7,096,951,451
Current Tax Liabilities	114,935,472	-	114,935,472
Deferred Tax Liabilities	-	391,739,422	391,739,422
Other Provisions and Accruals	190,688,114	-	190,688,114
Other Liabilities	932,783,840	153,214,549	1,085,998,389
Debentures	162,523,814	7,752,061,873	7,914,585,687
<b>Total Liabilities</b>	<b>81,531,453,230</b>	<b>20,478,245,404</b>	<b>102,009,698,634</b>
<b>Net</b>	<b>(22,014,300,820)</b>	<b>27,787,573,853</b>	<b>5,773,273,033</b>

# Notes to the Financial Statements

As at 31st December 2014	Within 12 months Rs.	After 12 months Rs.	Total Rs.
<b>Assets</b>			
Cash and Cash Equivalents	1,334,405,933	-	1,334,405,933
Balances with Central Bank	3,247,643,733	-	3,247,643,733
Derivative Financial Instruments	5,206,464	-	5,206,464
Financial Assets - Held for Trading	1,414,698,354	-	1,414,698,354
Loans and Receivables to Banks	7,597,250,330	-	7,597,250,330
Loans and Receivables to Other Customers	37,041,419,419	23,305,223,858	60,346,643,277
Financial Investments - Available for Sale	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	2,563,357,188	-	2,563,357,188
Property, Plant and Equipment	-	1,458,545,033	1,458,545,033
Intangible Assets	-	50,606,360	50,606,360
Other Assets	1,322,450,231	258,301,324	1,580,751,555
<b>Total Assets</b>	<b>54,526,431,652</b>	<b>25,078,834,422</b>	<b>79,605,266,074</b>
<b>Liabilities</b>			
Due to Banks	1,108,407,076	25,756,241	1,134,163,317
Due to Other Customers	59,403,370,116	5,491,854,812	64,895,224,928
Term Debt and Other Borrowed Funds	1,839,006,402	1,321,300,000	3,160,306,402
Deferred Tax Liabilities	-	281,978,238	281,978,238
Other Provisions and Accruals	126,733,762	-	126,733,762
Other Liabilities	1,305,580,689	131,694,957	1,437,275,646
Debentures	84,954,854	3,750,000,000	3,834,954,854
<b>Total Liabilities</b>	<b>63,868,052,899</b>	<b>11,002,584,248</b>	<b>74,870,637,147</b>
<b>Net</b>	<b>(9,341,621,247)</b>	<b>14,076,250,174</b>	<b>4,734,628,927</b>

## 42 CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit 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;

## 42.1 Contingencies

	2015 Rs.	2014 Rs.
Guarantees	2,902,318,052	3,154,995,471
Documentary Credit	1,772,393,216	3,396,689,353
Forward Foreign Exchange Contracts and Currency Swaps	12,834,240,004	8,107,485,923
Collection Bills	2,250,596,858	2,825,731,832
	19,759,548,130	17,484,902,579

## 42.2 Commitments

Undrawn Credit Commitments	6,463,659,703	4,715,191,985
	6,463,659,703	4,715,191,985
<b>Total</b>	<b>26,223,207,833</b>	<b>22,200,094,564</b>

There are no capital commitments as at the date of the Statement of Financial Position for which provision has not been made in the Financial Statements (2014 - Rs.103,426,758/-)

## 42.3 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. At year-end, the Bank had several unresolved legal claims.

### a) SC CHC Appeal 36/2006

The Appeal was lodged by the Bank against an order of the Commercial High Court to honour a claim on a Bank Guarantee issued by the Bank for Rs. 8,964,428/-, which claim has not been honoured by the Bank due to a suspicion of collusion between the beneficiary and the customer to defraud the Bank. Argument is fixed for 06th May 2016.

### b) Court of Appeal Case No.CALA 455/2005

The Appeal was lodged by the Bank against an Interim Injunction issued by the District Court restraining the Bank from claiming and receiving monies on a Bank Guarantee issued by another Bank to secure credit facilities of a customer. The case has been fixed for oral submissions on 08th March 2016.

### c) DC Colombo Case No.00002/08/DTR

The case filed by the previous owner of the mortgaged property on the basis of a constructive trust. An Interim injunction has been issued restraining the parate sale. The Judgment to be pronounced on 25th February 2016.

### d) HC (Civil) Case No. CHC 493/2009

The case filed by the previous owners claiming adverse title denying that they transferred the subject property to our customer. Interim injunction has been issued restraining the parate sale by the Commercial High Court. Further Trial is fixed for 18th and 30th March 2016. On the complaint lodged by the Bank with the CID to inquire into the purported forgery which is alleged to have been committed by our customer, the CID has arrested and bailed out the two suspects. The said Magistrate's Court Case ( No. 64/2010) is to be called on 09th March 2016.

# Notes to the Financial Statements

## e) HC (Civil) Case No. 670/09/MR

A property vested in the Bank under parate sale was claimed by another commercial Bank through a Mortgage Bond action. The case is due to be called on 16th March 2016 for a settlement or for the said commercial Bank to file extracts of title where their mortgage bond is registered.

## f) DC Negombo Case No. 7261/L

A third party claiming an adverse title on the basis of a forgery committed at the time the property has been transferred to the previous owner who obtained an interim injunction restraining the parate sale. The District Court case is coming up for Trial on 27th April 2016. The said party has also made a complaint to the CID and the case is pending against the former owner of the property in the Magistrate's Court of Negombo. The said case is to be called on 28th July 2016. The insurance company that has issued the title insurance is defending the civil case on behalf of the Bank.

## g) DC Colombo Case No. 00020/10/DLM

The previous owner obtained an interim injunction restraining the parate sale on the basis of a constructive trust. Further trial is fixed for 04th March 2016.

## h) DC Colombo Case No 17/99/CO-Court of Appeal Case No. CALA -05/2014

The property taken as a mortgage for the facilities is now vested in the State under the Revival of Under performing Enterprises and Underutilised Assets Act. The Compensation Tribunal has rejected the claim lodged by the Bank and the Bank appealed to the Court of Appeal. The case is to be called on 24th February 2016.

## i) HC (Civil) Case No 657/10/MR

Case was filed for the recovery of the total balance outstanding due to the Bank. Trial is fixed on 18th February 2016.

## 43 LEASE ARRANGEMENTS

### 43.1 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 under noncancellable operating leases as at reporting date are as follows:

	2015 Rs.	2014 Rs.
Within one year	138,073,436	163,604,766
After one year but not more than five years	468,847,992	579,643,145
More than five years	278,387,705	289,063,809
	885,309,133	1,032,311,720

The Bank has not entered into any agreements with third parties in the capacity of lessor of a operating lease asset.

## 43.2 Finance Lease Receivables

The Bank leases a variety of assets to third parties under finance leases. At the end of the lease terms assets may be sold to third parties or leases for further terms. The lease terms are fixed. Rentals are calculated to recover the cost of the assets less their residual values and earn finance income.

As at 31st December 2015	Total Future Minimum Payment Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payment Rs.
Lease Receivable			
- Within one year	3,345,086,995	850,809,019	2,494,277,976
- After one year but not more than five years	6,894,118,496	1,071,351,814	5,822,766,682
- More than five years	3,776,010	141,530	3,634,480
	10,242,981,501	1,922,302,363	8,320,679,138

As at 31st December 2014	Total Future Minimum Payment Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payment Rs.
Lease Receivable			
- Within one year	2,756,324,421	713,412,539	2,042,911,882
- After one year but not more than five years	4,512,830,232	788,862,186	3,723,968,046
- More than five years	150,338	4,529	145,809
	7,269,304,991	1,502,279,254	5,767,025,737

Accumulated allowance for uncollectible minimum lease payments are included in impairment for loans and other losses in Note 20.

## 44 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 44.4 and 44.5.

### 44.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

### 44.2 Transactions with Key Management Personnel of the Bank

The Bank has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the Bank as 'Key Management Personnel' in accordance with LKAS 24 : 'Related Party Disclosures'. Accordingly, Chief Executive Officer and Board of Directors have been identified as 'Key Management Personnel' (KMP). The Board has already nominated 'Officers Performing Executive Functions' as referred to in the Banking Act Determination No. 3 of 2010 as Key Management Personnel of the Bank ('Nominated KMP').



# Notes to the Financial Statements

## 44.3 Compensation of Key Management Personnel of the Bank

The following represents the compensation paid to Key Management Personnel of the Bank.

	2015 Rs.	2014 Rs.
Short-term Benefits		
- KMP	34,256,716	31,663,225
- Nominated KMP	77,570,232	67,414,707
	111,826,948	99,077,932

## 44.4 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 unfavorable features. The Bank has not made any provision for specific impairment losses on amounts owed by Key Management Personnel and Close Family Members.

	2015		2014	
	KMP Rs.	Nominated KMP Rs.	KMP Rs.	Nominated KMP Rs.
<b>Assets</b>				
Loans and Advances	10,505,724	51,312,346	16,769,263	45,603,694
Securities Purchased under Re-sale Agreements	123,783,152	-	-	-
<b>Liabilities</b>				
Deposits and Borrowings	199,831,928	71,052,939	228,344,185	42,055,142
Securities Sold Under Re-Purchase Agreements	248,915,868	-	-	-
<b>Commitments and Contingencies</b>				
Guarantees, Letter of Credit and Others	-	-	-	3,901,144
<b>Income and Expenses</b>				
Interest Income	2,521,737	3,024,587	951,956	3,237,808
Interest Expense	25,845,833	4,443,113	24,783,247	1,906,936
Fee and Commission Income	-	-	-	14,856

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

#### 44.5 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 Bank has not made any provision for specific impairment losses on amounts owed by related parties.

	2015 Rs.	2014 Rs.
<b>Assets</b>		
Loans and Advances	297,582,511	1,604,406,809
Investment in Quoted Shares	14,706,753	16,348,437
<b>Liabilities</b>		
Deposits and Borrowings	1,794,098,407	3,410,015,634
Securities Sold Under Re-Purchase Agreements	1,032,594,659	181,635,576
<b>Commitments and Contingencies</b>		
Guarantees, Letter of Credit and Others	136,026,778	328,840,444
<b>Income and Expenses</b>		
Interest Income	30,491,816	94,805,106
Interest Expense	109,647,724	187,582,769
Fee and Commission Income	158,495	7,590,861

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

#### 44.6 Net Accommodation to Key Management Personnel and Related Parties

Net direct and indirect accommodation granted to Key Management Personnel and entities having a substantial interest as at 31st December 2015 amounted to Rs 69,886,481/- (2014 - Rs.71,639,000/-) and Rs 2,757,815,000/- (2014 - Rs.3,200,849,580/-), which represent 0.86% (2014 -1.03%) and 33.91% (2014 - 45.92%) of the total regulatory capital of the Bank respectively.

#### 45 EVENTS AFTER THE REPORTING DATE

The Board of Directors have recommended a payment of a first and final cash dividend of Rs. 0.50 (Cents 50) per share for the year ended 31st December 2015 subject to the approval of the shareholders at the forthcoming Annual General Meeting. The proposed final dividends has not been recognised as a liability as at the reporting date.

There were no events after the reporting date which required adjustments to or disclosures in the Financial Statements except for the above.

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# Notes to the Financial Statements

## 46 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.

As required by the circulars issued by Central Bank of Sri Lanka on "Enhancement of Minimum Capital Requirement of Banks", Licensed Commercial Banks are required increase its capital up to Rs. 10 Billion. Accordingly, Central Bank of Sri Lanka has approved following staggered capital plan for the Bank.

- (a) Rs.5.0 Billion by 1st January 2016
- (b) Rs.7.5 Billion by 1st January 2017
- (c) Rs.10.0 Billion by 1st January 2018

### Capital Management

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order 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, they are under constant review by the Board of Directors.

Regulatory Capital consists of Core (Tier 1) Capital, which comprises Stated Capital, Statutory Reserve Fund, Published Retained Earnings and General and Other Reserves less 50% of Investments in Capital of Other Banks and Financial Institutions and Cost of Intangible Assets. The other component of Regulatory Capital is Supplementary (Tier II) Capital, which includes Approved Revaluation Surplus, Subordinated Term Debt and General Provisions less 50% of Investments in Capital of Other Banks and Financial Institutions.

The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for Licensed Banks in Sri Lanka based on the Basel Framework. Thus the Bank's operations are directly supervised by the Central Bank of Sri Lanka and the Bank is required to comply with the Provisions of the Basel II framework in respect of Regulatory Capital. Licensed Commercial Banks in Sri Lanka need to maintain a minimum total Capital Adequacy Ratio (CAR) of 10% and a Core Capital (Tier I) Ratio of at least 5%. As of 31st December 2015, the Bank reported an Eligible Core Capital ratio of 7.82% and a Total Capital Ratio of 12.30% which remain above the CBSL's capital requirements.

## 47 SEGMENT REPORTING

	2015			
	Retail Banking Rs.	Corporate Banking Rs.	Treasury Rs.	Total Rs.
<b>Gross Income</b>				
Third Party	6,567,518,511	2,243,940,432	1,947,678,624	10,759,137,567
Inter-Segment	913,072,975	(238,829,479)	(674,243,496)	-
<b>Total Income</b>	<b>7,480,591,486</b>	<b>2,005,110,953</b>	<b>1,273,435,128</b>	<b>10,759,137,567</b>
<b>Extracts of Results</b>				
Interest Income	5,966,079,386	1,975,338,780	1,097,552,732	9,038,970,898
Interest Expense	(3,612,016,936)	(1,209,590,234)	(254,774,974)	(5,076,382,144)
Inter - Segment	913,072,975	(238,829,479)	(674,243,496)	-
<b>Net Interest Income</b>	<b>3,267,135,425</b>	<b>526,919,067</b>	<b>168,534,262</b>	<b>3,962,588,754</b>
Fees and Commission Income	546,719,429	268,097,635	1,641,684	816,458,748
Fees and Commission Expense	(32,541,825)	-	(15,888,306)	(48,430,131)
<b>Net Fee and Commission Income/(Expense)</b>	<b>514,177,604</b>	<b>268,097,635</b>	<b>(14,246,622)</b>	<b>768,028,617</b>
Net Gain from Trading	-	342,017	303,615,996	303,958,013
Net Gain from Available for Sale Financial Investments	-	162,000	-	162,000
Other Operating Income	54,719,696	-	544,868,212	599,587,908
Impairment for Loans and Other Losses	(443,023,639)	(307,501,509)	-	(750,525,148)
<b>Net Operating Income</b>	<b>3,393,009,086</b>	<b>488,019,210</b>	<b>1,002,771,848</b>	<b>4,883,800,144</b>
Depreciation of Property, Plant and Equipment	124,754,015	33,439,287	21,237,110	179,430,412
Amortisation of Intangible Assets	29,691,584	7,958,585	5,054,453	42,704,622
<b>Segment Result</b>	<b>3,238,563,487</b>	<b>446,621,338</b>	<b>976,480,285</b>	<b>4,661,665,110</b>
Unallocated Expenses				2,757,664,807
Value Added Tax and Nation Building Tax on Financial Services				361,870,606
<b>Profit Before Tax</b>				<b>1,542,129,697</b>
Income Tax Expense				501,611,752
<b>Profit for the Year</b>				<b>1,040,517,945</b>
Other Comprehensive Income for the Year Net of Tax				(1,873,839)
<b>Total Comprehensive Income for the Year</b>				<b>1,038,644,106</b>
<b>Segment Assets</b>	<b>53,838,624,614</b>	<b>25,696,444,382</b>	<b>22,216,145,849</b>	<b>101,751,214,845</b>
Unallocated Assets	-	-	-	6,031,756,822
<b>Total Assets</b>	<b>53,838,624,614</b>	<b>25,696,444,382</b>	<b>22,216,737,623</b>	<b>107,782,971,667</b>
<b>Segment Liabilities</b>	<b>66,549,997,208</b>	<b>23,856,392,740</b>	<b>9,819,770,853</b>	<b>100,226,160,801</b>
Unallocated Liabilities and Equity	-	-	-	7,556,810,866
<b>Total Liabilities and Equity</b>	<b>66,549,997,208</b>	<b>23,856,392,740</b>	<b>9,819,770,853</b>	<b>107,782,971,667</b>

# Notes to the Financial Statements

	2014			Total Rs.
	Retail Banking Rs.	Corporate Banking Rs.	Treasury Rs.	
<b>Gross Income</b>				
Third Party	5,069,203,469	2,162,708,402	1,612,044,605	8,843,956,476
Inter - Segment	1,216,676,479	(404,792,823)	(811,883,656)	-
<b>Total Income</b>	6,285,879,948	1,757,915,579	800,160,949	8,843,956,476
<b>Extracts of Results</b>				
Interest Income	4,610,663,021	1,954,071,463	976,990,593	7,541,725,077
Interest Expense	(3,687,035,651)	(947,797,130)	(166,908,329)	(4,801,741,110)
Inter - Segment	1,216,676,479	(404,792,823)	(811,883,656)	-
<b>Net Interest Income</b>	2,140,303,849	601,481,510	(1,801,392)	2,739,983,967
Fees and Commission Income	435,772,677	208,095,935	-	643,868,612
Fees and Commission Expense	(5,770,951)	-	(9,495,852)	(15,266,803)
<b>Net Fee and Commission Income/(Expense)</b>	430,001,726	208,095,935	(9,495,852)	628,601,809
Net Gain from Trading	-	273,614	343,991,717	344,265,331
Net Gain from Available for Sale Financial Investments	-	267,390	-	267,390
Other Operating Income	22,767,771	-	291,062,295	313,830,066
Impairment for Loans and Other Losses	(698,499,647)	(115,929,283)	(425,424)	(814,854,354)
<b>Net Operating Income</b>	1,894,573,699	694,189,166	623,331,344	3,212,094,209
Depreciation of Property, Plant and Equipment	114,007,362	32,573,533	16,286,767	162,867,662
Amortisation of Intangible Assets	11,183,041	3,195,155	1,597,579	15,975,775
<b>Segment Result</b>	1,769,383,296	658,420,478	605,446,998	3,033,250,772
Unallocated Expenses				2,278,742,136
Value Added Tax and Nation Building Tax on Financial Services				216,075,298
<b>Profit Before Tax</b>				538,433,338
Income Tax Expense				123,222,628
<b>Profit for the Year</b>				415,210,710
Other Comprehensive Income for the Year Net of Tax				270,654,683
<b>Total Comprehensive Income for the Year</b>				685,865,393
<b>Segment Assets</b>	35,257,031,330	20,044,920,511	18,134,355,465	73,436,307,306
Unallocated Assets	-	-	-	6,168,958,768
<b>Total Assets</b>	35,257,031,330	20,044,920,511	18,134,355,465	79,605,266,074
<b>Segment Liabilities</b>	54,191,175,986	15,902,843,191	2,930,630,324	73,024,649,501
Unallocated Liabilities and Equity	-	-	-	6,580,616,573
<b>Total Liabilities and Equity</b>	54,191,175,986	15,902,843,191	2,930,630,324	79,605,266,074

# 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.

<b>1. Information about the Significance of Financial Instruments for Financial Position and Performance</b>		
<b>1.1 Statement of Financial Position</b>		
1.1.1	Disclosures on categories of financial assets and financial liabilities.	Note 36 to the Financial Statements - Analysis of Financial Assets and Liabilities by Measurement basis
1.1.2	Other Disclosures	
(i)	Special disclosures about financial assets and financial liabilities designated to be measured at Fair Value through Profit or Loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Note 37 to the Financial Statements - Fair Value of Financial Instruments
(ii)	Reclassifications of financial instruments from one category to another.	Note 37.3 to the Financial Statements - Reclassification 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 22.1 - Financial Assets Held to Maturity Pledged as a Collateral
(iv)	Reconciliation of the allowance account for credit losses by class of financial assets.	Note 20.4 - Movement in Individual and Collective Impairment during the Year
(v)	Information about compound financial instruments with multiple embedded derivatives.	Not Applicable
(vi)	Breaches of terms of loan agreements.	None
<b>1.2 Statement of Comprehensive Income</b>		
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

# Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

<b>1.3 Other Disclosures</b>		
1.3.1	Accounting policies for financial instruments.	Note 2.8 to the Financial Statements - Summary of Significant Accounting Policies
1.3.2	Information on hedge accounting	Not Applicable
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:	
	(i) Comparable Carrying Amounts.	Note 37 to the Financial Statements - Fair Value of Financial Instruments
	(ii) Description of how fair value was determined.	
	(iii) The level of inputs used in determining fair value.	
	(iv) (a) Reconciliations of movements between levels of fair value measurement hierarchy.	Not Applicable
	(b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	Not Applicable
	(v) Information if fair value cannot be reliably measured.	Note 21 to the Financial Statements - Financial Investments - Available for Sale
<b>2. Information about the Nature and Extent of Risks Arising from Financial Instruments</b>		
<b>2.1 Qualitative Disclosures</b>		
2.1.1	Risk exposures for each type of financial instrument.	Note 38 to the Financial Statements - Risk Management
2.1.2	Management's objectives, policies, and processes for managing those risks.	Note 38 to the Financial Statements - Risk Management
2.1.3	Changes from the prior period.	Not Applicable
<b>2.2 Quantitative Disclosures</b>		
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	Note 38 to the Financial Statements - Risk Management
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	Note 38 to the Financial Statements - Risk Management
	(i) Credit Risk	Note 38.2 to the Financial Statements - Credit Risk
	(a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	
	(b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset	
	(c) Information about collateral or other credit enhancements obtained or called.	
	(d) Other disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	

(ii) Liquidity Risk

- (a) A maturity analysis of financial liabilities.
- (b) Description of approach to risk management.
- (c) Other disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).

Note 38.3 to the Financial Statements - Liquidity Risk and Risk Management on pages 65 to 73 of the Annual Report.

(iii) Market Risk

- (a) A sensitivity analysis of each type of market risk to which the entity is exposed.
- (b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.
- (c) Other disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).

Note 38.4 to the Financial Statements - Market Risk

(iv) Operational Risk disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).

Note 38.5 to the Financial Statements - Operational Risk and Risk Management on pages 65 to 73 of the Annual Report.

(v) Equity Risk in the Banking Book

(a) Qualitative Disclosures

- Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.
- Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.

Note 38.4 to the Financial Statements - Market Risk and Risk Management on pages 65 to 73 of the Annual Report.

Note 38.4 to the Financial Statements - Market Risk

(b) Quantitative Disclosures

Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value, the types and the nature of investments and the cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.

Note 18 to the Financial Statements - Financial Assets Held for Trading (Quoted Equities) and Note 6 - Net Gain from Trading



# Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

(vi)	Interest Rate Risk in the Banking Book	Note 38.4 to the Financial Statements - Market Risk
(a)	Qualitative Disclosures Nature of Interest Rate Risk in the Banking Book (IRRBB) and key assumptions.	
(b)	Quantitative Disclosures The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant)	
2.2.3	Information on concentrations of risk	Note 38 to the Financial Statements - Risk Management
<b>3.</b>	<b>Other Disclosures</b>	
<b>3.1</b>	<b>Capital</b>	
3.1.1	Capital Structure	
(i)	Qualitative Disclosures Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Note 46 to the Financial Statements - Capital and Capital Adequacy Computation on pages 209 and 210 of the Annual Report.
(ii)	Quantitative Disclosure	
(a)	The amount of Tier 1 capital, with separate disclosure of - Paid-up share capital/common stock - Reserves - Non-controlling interests in the equity of subsidiaries - Innovative instruments - Other capital instruments - Deductions from Tier 1 capital	Capital Adequacy Computation on pages 209 and 210 of the Annual Report.
(b)	The total amount of Tier 2 and Tier 3 capital	
(c)	Other deductions from capital	
(d)	Total eligible capital	
3.1.2	Capital Adequacy	
(i)	Qualitative Disclosures A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	Capital Adequacy Computation on pages 209 and 210 of the Annual Report.
(ii)	Quantitative Disclosures	
(a)	Capital requirements for credit risk, market risk and operational risk	
(b)	Total and Tier 1 Capital Ratio	

# Capital Adequacy Computation

Capital Base as at 31st December	2015 (Basel II) Rs. 000	2014 (Basel II) Rs. 000
<b>Tier I: Core Capital</b>		
Paid up Ordinary Shares and Share Premium (Stated Capital)	1,548,966	1,548,966
Statutory Reserve Fund	241,996	189,970
Published Retained Profits	3,711,605	2,718,777
<b>Core Capital (Tier I Capital)</b>	<b>5,502,567</b>	<b>4,457,713</b>
<b>Deductions/Adjustments:</b>		
Intangible Assets	329,127	50,607
<b>Total Eligible Core Capital (Eligible Tier I Capital)</b>	<b>5,173,440</b>	<b>4,407,106</b>
<b>Tier II : Supplementary Capital</b>		
Revaluation Reserves	135,353	138,458
General Provisions	336,640	221,317
Approved Subordinated Term Debt	2,487,499	2,203,552
<b>Total Eligible Supplementary Capital (Tier II Capital)</b>	<b>2,959,492</b>	<b>2,563,327</b>
<b>Capital Base / Total Regulatory Capital</b>	<b>8,132,932</b>	<b>6,970,433</b>
<b>Computation of Ratios</b>		
<b>Total Risk Weighted Assets</b>		
Risk Weighted Assets for Credit Risk	59,658,274	43,642,212
Risk Weighted Assets for Market Risk	44,464	179,575
Risk Weighted Assets for Operational Risk	6,412,354	5,290,290
<b>Total Risk Weighted Assets</b>	<b>66,115,092</b>	<b>49,112,077</b>
<b>Core Capital Ratio (Minimum Requirement 5%)</b>		
Total Eligible Core Capital (Eligible Tier I Capital)	5,173,440	4,407,106
Total Risk Weighted Assets	66,115,092	49,112,077
	7.82%	8.97%
<b>Total Capital Ratio (Minimum Requirement 10%)</b>		
Capital Base / Total Regulatory Capital	8,132,932	6,970,433
Total Risk Weighted Assets	66,115,092	49,112,077
	12.30%	14.19%

# Capital Adequacy Computation

## Computation of Risk Weighted Assets - (Basel II)

### Credit Risk

#### On Balance Sheet Exposure for Credit Risk

As at 31st December 2015

	Balance Rs. 000	Risk Weight Factor %	Risk Weighted Amount for Credit Risk Rs. 000
<b>Assets - Exposures</b>			
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	26,196,617	0	-
Claims on Banks	987,456	20 - 150	452,371
Claims on Financial Institutions	7,397,642	20 - 150	3,470,699
Claims on Corporates	9,264,181	20 - 150	8,647,347
Retail Claims	46,560,301	75 - 100	37,696,176
Claims on Secured Residential Property	2,573,722	50 - 100	1,777,677
Non Performing Advances	2,818,179	50 - 150	3,898,666
Cash Items	10,123,464	0 - 20	4,470
Other Assets	1,858,710	100 - 150	1,861,789
<b>Total On Balance Sheet Exposure</b>	<b>107,780,272</b>		<b>57,809,195</b>

#### Off Balance Sheet Exposure for Credit Risk

As at 31st December 2015

	Principle Amount of Off Balance Sheet items Rs. 000	Credit Conversion Factor %	Credit Equivalent Amount Rs. 000	Risk Weight Factor %	Credit Equivalent of Off Balance Sheet items Rs. 000
Financial Guarantees, Bank Acceptances and Other Guarantees	1,085,512	100	1,085,512	100	1,085,512
Performance related Guarantees and Warranties and Stand by Credit Lines	340,720	50	170,360	100	170,360
Shipping Guarantees	571,758	20	114,352	100	114,352
Documentary Letter of Credit	1,433,235	20	286,647	100	286,647
Undrawn Overdrafts and Other Credit Facilities	6,463,660	0-50	-	100	-
Foreign Exchange Contracts	9,610,379	2-5	192,208	100	192,208
<b>Total Off Balance Sheet Exposures</b>	<b>19,505,264</b>		<b>1,849,079</b>		<b>1,849,079</b>

### Market Risk

As at 31st December 2015

	Capital Charge Rs. 000	Risk Weighted Amount for Market Risk Rs. 000
Equity	2,941	29,414
Foreign Exchange	1,505	15,050
<b>Total Risk Adjusted Balance for Market Risk</b>	<b>4,446</b>	<b>44,464</b>

### Operational Risk

As at 31st December 2015

	Capital Charge Rs. 000	Risk Weighted Amount for Operational Risk Rs. 000
Average Gross income	4,274,903	
15% of Average Gross income	641,235	
<b>Total Risk Adjusted Balance for Operational Risk</b>	<b>641,235</b>	<b>6,412,354</b>

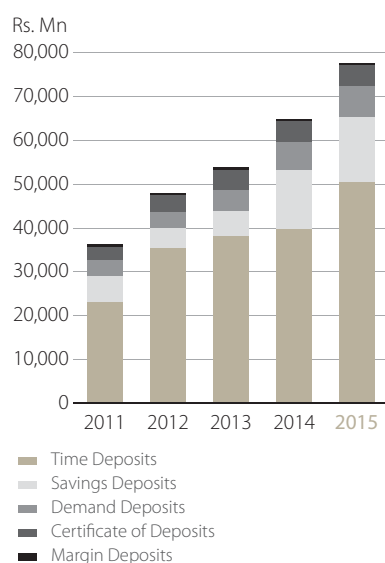
# Quarterly Statistics

For the Quarter ended	2015				2014			
	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
<b>Extract of Statement of Financial Position</b>								
Total Assets	107,782,972	103,062,215	85,087,354	81,050,704	79,605,266	73,831,167	69,386,371	67,607,211
Loans and Receivables to Other Customers	84,185,516	79,600,283	70,077,795	66,088,491	60,346,643	52,376,003	50,481,962	47,251,716
Due to Other Customers	77,697,055	77,440,819	69,707,661	65,034,716	64,895,225	62,672,222	56,792,436	55,619,806
Debentures	7,914,586	7,993,402	3,929,999	3,889,488	3,834,955	767,190	779,849	761,575
Shareholders' Funds	5,773,273	5,485,592	5,185,355	4,911,599	4,734,629	4,604,312	4,224,655	4,134,707
<b>Extract of Statement of Comprehensive Income</b>								
Net Interest Income	1,041,853	1,095,350	975,467	849,919	850,139	635,430	547,621	706,794
Other Income	381,206	444,941	430,590	414,999	369,495	298,993	329,094	289,383
<b>Total Operating Income</b>	<b>1,423,059</b>	<b>1,540,291</b>	<b>1,406,057</b>	<b>1,264,918</b>	<b>1,219,634</b>	<b>934,423</b>	<b>876,715</b>	<b>996,177</b>
Impairment for Loans & other Losses	(63,399)	(244,962)	(217,264)	(224,900)	(303,181)	(86,515)	(124,377)	(300,781)
Non-interest Expenses	(909,365)	(839,343)	(823,120)	(769,842)	(723,983)	(691,610)	(644,290)	(613,778)
Income Tax Expense	(160,745)	(155,746)	(91,915)	(93,206)	(54,339)	(55,109)	(18,100)	4,325
<b>Profit for the Period</b>	<b>289,550</b>	<b>300,240</b>	<b>273,758</b>	<b>176,970</b>	<b>138,131</b>	<b>101,189</b>	<b>89,948</b>	<b>85,943</b>

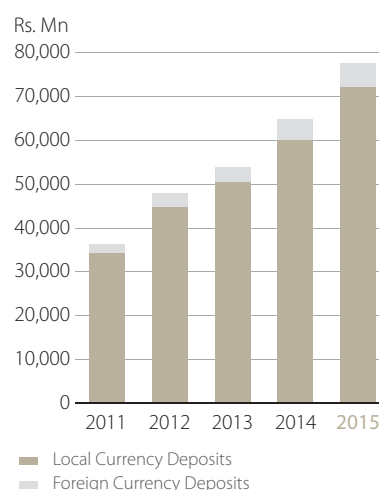
# Analysis of Due to Other Customers

	2015 Rs. 000	2014 Rs. 000	2013 Rs. 000	2012 Rs. 000	2011 Rs. 000
<b>By Product</b>					
Demand Deposits	6,881,532	6,456,819	4,773,215	3,559,094	3,826,492
Savings Deposits	14,880,794	13,360,712	5,629,927	4,533,010	5,919,497
Time Deposits	50,480,498	39,743,568	38,188,235	35,425,977	23,016,908
Certificate of Deposits	4,887,367	4,820,760	4,558,118	3,990,847	2,899,155
Margin Deposits	566,864	513,366	686,402	402,160	691,337
	77,697,055	64,895,225	53,835,897	47,911,088	36,353,389
<b>By Currency</b>					
Sri Lankan Rupee	72,192,571	59,943,968	50,475,100	44,692,636	34,212,619
United States Dollar	4,528,541	4,069,126	2,317,692	2,021,617	1,648,313
Great Britain Pound	428,676	373,923	306,726	217,796	205,647
Others	547,267	508,208	736,379	979,039	286,810
	77,697,055	64,895,225	53,835,897	47,911,088	36,353,389

**By Product**



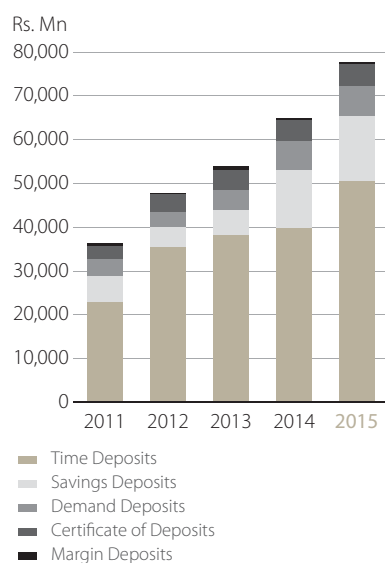
**By Currency**



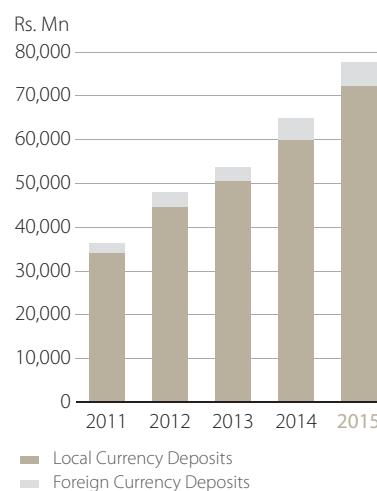
# Analysis of Loans and Receivables to Other Customers

	2015 Rs. 000	2014 Rs. 000	2013 Rs. 000	2012 Rs. 000	2011 Rs. 000
<b>By Product</b>					
Overdrafts	17,101,701	14,418,732	13,927,292	14,644,630	10,551,588
Trade Finance	2,911,459	1,991,724	1,588,560	1,319,974	1,082,081
Credit Cards	1,466,930	625,292	213,001	94,683	266,506
Pawning & Ran Loans	1,381,924	1,308,199	2,997,534	7,412,047	7,000,929
Staff Loans	540,002	362,297	347,212	325,278	257,147
Term Loans	41,314,076	28,391,517	15,213,900	9,556,463	7,272,443
Lease Rentals Receivables	8,320,679	5,767,026	5,149,445	4,591,944	2,992,612
Margin Trading	2,724,766	2,110,593	1,830,969	2,131,805	1,924,657
Reverse Repurchase Agreements	984,360	1,000,176	1,182,698	-	250,096
Sri Lanka Development Bonds	6,245,116	5,195,616	1,984,459	1,168,674	460,054
Debentures	2,262,835	1,176,040	-	12,897	11,485
Others	1,068,804	945,509	2,693,632	3,831,111	4,434,890
	86,322,652	63,292,721	47,128,702	45,089,506	36,504,488
<b>By Currency</b>					
Sri Lankan Rupee	75,128,454	54,267,574	43,159,703	41,702,645	35,407,132
United States Dollar	9,676,145	8,906,719	3,882,484	3,191,257	1,068,411
Great Britain Pound	36,120	11,204	43,069	48,702	13,327
Others	1,481,933	107,224	43,446	146,902	15,618
	86,322,652	63,292,721	47,128,702	45,089,506	36,504,488

**By Product**



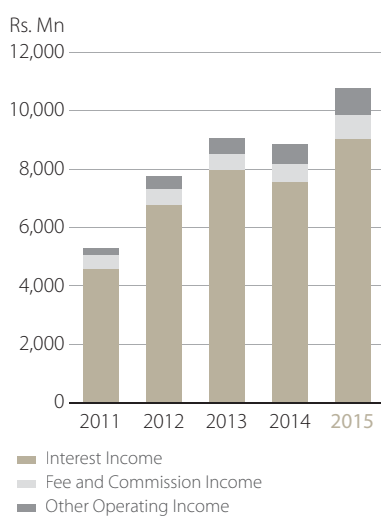
**By Currency**



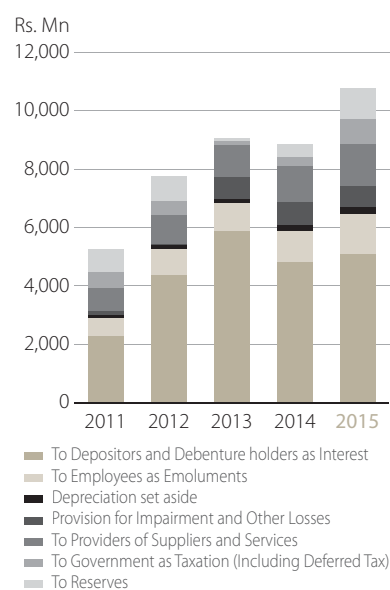
# Sources & Distribution of Income

	2015 Rs. 000	2014 Rs. 000	2013 Rs. 000	2012 Rs. 000	2011 Rs. 000
<b>Sources of Income</b>					
Interest Income	9,038,971	7,541,725	7,976,952	6,766,833	4,582,661
Fee and Commission Income	816,459	643,869	548,298	540,197	473,409
Other Operating Income	903,708	658,362	528,786	459,189	222,144
	10,759,138	8,843,956	9,054,036	7,766,219	5,278,214
<b>Distribution of Income</b>					
To Depositors and Debenture holders as Interest	5,076,382	4,801,741	5,881,653	4,360,678	2,268,624
To Employees as Emoluments	1,389,142	1,080,881	942,167	894,064	644,787
Depreciation and Amortisation set aside	222,135	178,843	168,061	140,943	94,144
Provision for Impairment and Other Losses	750,525	814,854	743,261	47,881	121,918
To Providers of Supplies and Services	1,416,953	1,213,128	1,090,454	967,939	799,392
To Government as Taxation	863,483	339,298	114,602	494,663	537,583
Income Tax (Including Deferred Tax)	501,612	123,223	10,067	285,357	342,206
VAT and NBT on Financial Services	361,871	216,075	104,535	209,306	193,087
Debit Tax	-	-	-	-	2,290
To Reserves	1,040,518	415,211	113,838	860,051	811,766
	10,759,138	8,843,956	9,054,036	7,766,219	5,278,214

Sources of Income



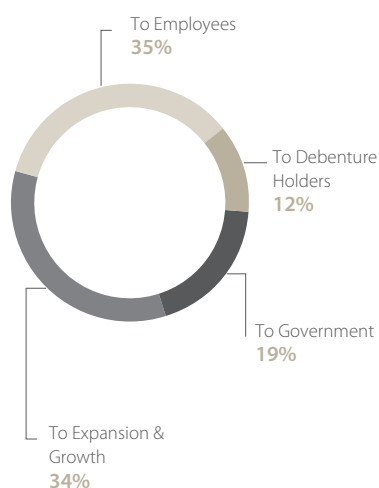
Distribution of Income



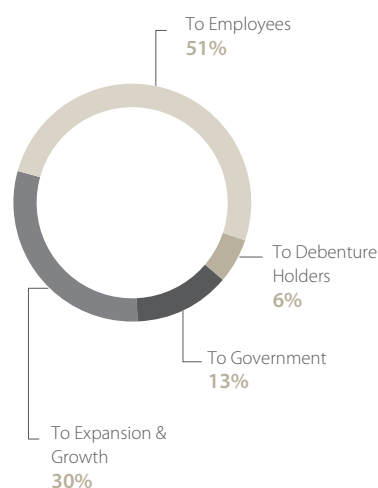
# Value Added Statement

	2015 Rs. 000	%	2014 Rs. 000	%
<b>Value Added</b>				
Income from Banking Services	10,759,138		8,843,956	
Cost of Funds and Services	(6,015,653)		(5,880,160)	
Value Added by Banking Services	4,743,485		2,963,796	
Impairment for Loans and Other Losses	(750,525)		(814,854)	
	3,992,960		2,148,942	
<b>Distribution of Value Added</b>				
<b>To Employees</b>				
Salaries and Other Benefits	1,389,142	35%	1,080,881	51%
<b>To Debenture Holders</b>				
Interest to Debenture Holders	477,682	12%	134,709	6%
<b>To Government</b>				
Income Tax	391,122		66,683	
VAT and NBT on Financial Services	361,871		216,075	
	752,993	19%	282,758	13%
<b>To Expansion and Growth</b>				
Retained Profit	1,040,518		415,211	
Depreciation and Amortisation	222,135		178,843	
Deferred Taxation	110,490		56,540	
	1,373,143	34%	650,594	30%
	3,992,960	100%	2,148,942	100%

**Distribution of Value Added  
2015**



**Distribution of Value Added  
2014**





# Decade at a Glance

Rs. Mn

For the Year ended 31st December	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Operating Results</b>										
Income	1,580.84	2,317.14	3,241.16	3,862.07	3,484.41	5,278.21	7,766.22	9,054.04	8,843.96	10,759.14
Interest Income	1,289.08	1,968.55	2,864.60	3,159.66	3,027.66	4,582.66	6,766.83	7,976.95	7,541.72	9,038.97
Interest Expense	754.00	1,223.53	1,798.44	1,878.01	1,402.26	2,268.62	4,360.68	5,881.65	4,801.74	5,076.38
Net Interest Income	535.08	745.02	1,066.16	1,281.65	1,625.40	2,314.04	2,406.15	2,095.30	2,739.98	3,962.59
Other Income	291.76	348.60	376.55	702.40	456.75	695.55	999.39	1,077.08	1,302.23	1,720.17
Operating Expenses & Provisions	576.67	776.83	1,020.88	1,318.90	1,388.22	1,855.62	2,260.13	3,048.47	3,503.78	4,140.63
Profit before Income Tax	250.17	316.79	421.83	665.15	693.93	1,153.97	1,145.41	123.91	538.43	1,542.13
Income tax	86.43	100.71	198.20	277.33	332.14	342.20	285.36	10.07	123.22	501.61
<b>Profit for the Year</b>	<b>163.74</b>	<b>216.08</b>	<b>223.63</b>	<b>387.82</b>	<b>361.79</b>	<b>811.77</b>	<b>860.05</b>	<b>113.84</b>	<b>415.21</b>	<b>1,040.52</b>
<b>As at 31st December</b>										
<b>Assets</b>										
Cash and Cash Equivalents	424.32	612.33	843.93	588.33	1,110.07	2,430.15	1,203.05	1,203.74	1,334.41	1,393.27
Balances with Central Bank	704.06	856.28	704.59	807.21	1,060.32	2,250.43	3,516.87	2,799.58	3,247.64	4,166.74
Placements with Banks	440.15	422.17	59.18	96.81	-	-	500.13	104.62	-	-
Derivative Financial Instruments	-	-	-	-	1.14	1.51	0.05	2.76	5.21	1.54
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
Loans and Receivables to Banks	-	-	-	-	-	-	-	12.00	7,597.25	944.84
Loans and Receivables to Customers	9,265.88	11,431.77	12,776.96	12,693.80	22,792.38	34,619.64	43,213.37	44,728.69	60,346.64	84,185.52
Financial Investments - Available for Sale	1.14	3.14	2.14	2.14	2.14	2.14	6.16	6.16	6.16	6.16
Financial Investments - Held to Maturity	855.91	1,144.71	551.93	2,270.81	1,210.12	5,260.63	4,896.05	2,849.48	2,563.36	14,667.28
Property, Plant and Equipment	511.10	552.38	587.17	595.56	614.65	1,026.34	1,224.24	1,204.30	1,458.55	1,470.35
Intangible Assets	18.83	16.56	31.72	36.13	48.67	52.15	73.58	65.80	50.61	329.13
Other Assets	404.49	486.36	462.19	638.70	969.62	1,164.92	1,428.41	2,770.90	1,580.74	603.43
<b>Total Assets</b>	<b>12,625.88</b>	<b>15,525.70</b>	<b>18,984.34</b>	<b>21,558.83</b>	<b>31,241.74</b>	<b>46,998.89</b>	<b>56,074.29</b>	<b>64,918.45</b>	<b>79,605.27</b>	<b>107,782.97</b>
<b>Liabilities</b>										
Borrowings & Due to Banks	1,281.92	505.25	1,399.60	1,326.78	4,470.46	4,916.09	1,121.65	4,743.51	4,294.47	14,612.56
Derivative Financial Instruments	-	-	-	-	3.23	1.26	0.63	24.63	-	2.14
Due to Other Customers	9,189.09	12,523.47	14,951.08	16,914.26	21,951.82	36,353.39	47,911.09	53,835.90	64,895.23	77,697.05
Current Tax Liabilities	44.76	58.81	121.57	245.56	262.37	227.90	151.31	-	-	114.94
Deferred Tax Liabilities	34.08	41.83	55.61	10.53	83.49	121.69	177.13	150.79	281.98	391.74
Other Liabilities and Provisions	537.12	641.36	753.83	1,032.04	1,552.03	1,697.87	1,694.06	1,330.16	1,564.01	1,276.69
Debentures	303.79	303.79	110.81	50.00	50.00	-	785.83	784.69	3,834.95	7,914.58
<b>Total Liabilities</b>	<b>11,390.76</b>	<b>14,074.51</b>	<b>17,392.50</b>	<b>19,579.17</b>	<b>28,373.40</b>	<b>43,318.20</b>	<b>51,841.70</b>	<b>60,869.68</b>	<b>74,870.64</b>	<b>102,009.70</b>
<b>Shareholders' Funds</b>										
Stated Capital	1,106.40	1,106.40	1,106.40	1,106.40	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97
Reserves	128.72	344.79	485.44	873.26	1,319.37	2,131.72	2,683.62	2,499.80	3,185.66	4,224.30
<b>Total Shareholders' Funds</b>	<b>1,235.12</b>	<b>1,451.19</b>	<b>1,591.84</b>	<b>1,979.66</b>	<b>2,868.34</b>	<b>3,680.69</b>	<b>4,232.59</b>	<b>4,048.77</b>	<b>4,734.63</b>	<b>5,773.27</b>
<b>Total Liabilities and Shareholders' Funds</b>	<b>12,625.88</b>	<b>15,525.70</b>	<b>18,984.34</b>	<b>21,558.83</b>	<b>31,241.74</b>	<b>46,998.89</b>	<b>56,074.29</b>	<b>64,918.45</b>	<b>79,605.27</b>	<b>107,782.97</b>
<b>Commitments and Contingencies</b>	<b>1,733.70</b>	<b>2,296.66</b>	<b>2,772.80</b>	<b>3,151.96</b>	<b>10,887.66</b>	<b>15,331.43</b>	<b>13,743.92</b>	<b>26,124.67</b>	<b>22,200.09</b>	<b>26,223.21</b>
<b>Share Information</b>										
Earnings per Share (Rs.)	1.32	0.98	1.01	1.61	1.31	2.75	2.92	0.39	1.41	3.53
Net Assets Value per Share (Rs.)	5.58	6.56	7.20	8.95	9.44	12.48	14.35	13.72	16.05	19.57
<b>Other Information</b>										
No of Employees	433	546	507	511	670	1,096	1,153	1,169	1,302	1,420
No of Branches	19	27	32	35	41	64	73	77	78	79

# 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 section 7.6 of 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 and Corporate Information	110
7.6 (ii)	Principal activities of the entity during the year and any changes therein	Notes to the Financial Statements (Note 1)	130
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	218
7.6 (iv)	The Public Holding percentage and Number of Shares Held by Public	Item 02 of the Investor Relations	219
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	110
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Item 05 of the Investor Relations	222
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Item 06 of the Investor Relations	222
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 23)	158
7.6 (ix)	Number of shares representing the Entity's Stated Capital	Notes to the Financial Statements (Note 33)	168
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	220
7.6 (xi)	Ratios and Market Price information <ul style="list-style-type: none"> <li>Equity Ratios</li> <li>Market Value</li> <li>Debenture Information</li> <li>Credit Rating</li> </ul>	Item 04 of the Investor Relations Item 04 of the Investor Relations Item 04 of the Investor Relations Corporate Information (Inner Back Cover)	221
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 23)	158
7.6 (xiii)	Details of funds raised through public issues, Right Issues, and private Placements during the year.	Notes to the Financial Statements (Note 32 and 33)	166 to 168
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	

# Investor Relations

## 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		
2012/2017 - 11.25% p.a.	Fixed Rate	PABC D0166
2012/2017 - 11.50% p.a.	Fixed Rate	PABC D0167
2012/2017 - 6 Months Gross T-Bill Rate + 2.95%	Floating Rate	PABC D0168
2012/2017 - 14.50% p.a.	Fixed Rate	PABC D0169
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 Months Net T-Bill Rate + 2.50%	Floating Rate	PABC D0354
2015/2019 - 10.00% p.a.	Fixed Rate	PABC D0355
2015/2019 - 6 Months Net T-Bill Rate + 3.00%	Floating Rate	PABC D0356

The Audited Statement of Financial Position as at 31st December 2015 and Audited Income statement for the year ended 31st December 2015 of the Bank will be submitted to the Colombo Stock Exchange within 03 months from the Statement of Financial Position date.

## 2. The Names, Number and Percentage of Shares held by Twenty Largest Shareholders

As at 31st December 2015

	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.	CHC Investment (Pvt) Ltd	29,073,325	9.85
4.	D. C. C. Joseph	17,282,029	5.86
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	7,510,238	2.54
10.	Sri Lanka Savings Bank Ltd	6,865,666	2.33
11.	N P Capital Ltd	6,860,603	2.32
12.	A. R. Molligoda	2,491,546	0.84
13.	Favourite Garments (Pvt) Ltd	1,850,000	0.63
14.	M. F. Hashim	1,711,802	0.58
15.	Deshabandu D.M.I Dissanayake	1,425,951	0.48
16.	R. E. U. De Silva	1,288,639	0.44
17.	Navara Capital Limited	1,060,000	0.36
18.	H. Beruwalage	874,432	0.30
19.	Alfred Edirisinghe (Pvt) Ltd	800,000	0.27
20.	A. P. Somasiri	700,000	0.24
	<b>Sub Total</b>	<b>266,596,919</b>	<b>90.36</b>
	Balance held by Shareholders 4,043 Shareholders	28,444,167	9.64
	<b>Total Number of Shares</b>	<b>295,041,086</b>	<b>100.00</b>

As at 31st December 2014

	<b>Name of Shareholder</b>	<b>Number of Shares</b>	<b>Holding as a%</b>
1.	K. D. D. Perera	88,482,820	29.99
2.	Bansei Securities Co., Ltd.	44,256,164	15.00
3.	CHH Food (Pvt) Ltd	28,021,081	9.50
4.	D. C. C. Joseph	17,010,202	5.77
5.	K. D. H. Perera	15,537,332	5.27
6.	P. J. Tay	14,611,996	4.95
7.	N P Capital Ltd	12,860,603	4.36
8.	K. D. A. Perera	12,800,000	4.34
9.	Samurdhi Authority of Sri Lanka	11,114,376	3.77
10.	Sri Lanka Savings Bank Ltd	6,865,666	2.33
11.	Favourite Garments (Pvt) Ltd	1,850,000	0.63
12.	HSBC Int'l Nom. Ltd-KAS Depository Trust Company	1,638,582	0.56
13.	M. F. Hashim	1,582,702	0.54
14.	Deshabandu D. M. I. Dissanayake	1,475,100	0.50
15.	Sampath Bank Limited – Account No.3	1,380,532	0.47
16.	R. E. U. De Silva	1,288,639	0.44
17.	Navara Capital Ltd.,	1,052,000	0.36
18.	HSBC Int'l Nom. Ltd-SSBT-Deutsche Bank AG Singapore A/C 01	1,000,000	0.34
19.	H. Beruwalage	874,432	0.30
20.	Alfred Edirisinghe (Pvt) Ltd	800,000	0.27
	<b>Sub Total</b>	<b>264,502,227</b>	<b>89.69</b>
	Balance held by 4,214 shareholders	30,538,859	10.31
	<b>Total Number of Shares</b>	<b>295,041,086</b>	<b>100.00</b>

As per Rule No. 7.6 (IV) of the Listing Rules of the CSE, percentage of public holding as at 31st December 2015 was 51.94% in the hands of 4,048 public shareholders (31st December 2014 - 54.31% on hands of 4,223 shareholders).

# Investor Relations

## 3. Distribution Schedule of the Number of Shareholders and Percentage of Share Holding

The total numbers of registered Shareholders as at 31st December 2015 were 4,063 (31st December 2014: 4,234).

### Analysis 1

Range of Shareholding	Resident			Non- Resident			Totals		
	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	825	32,165	0.01	3	118	0.00	828	32,283	0.01
101 - 1,000	1,521	796,278	0.27	8	4,800	0.00	1,529	801,078	0.27
1,001 - 5,000	980	2,599,831	0.88	10	31,800	0.01	990	2,631,631	0.89
5,001 - 10,000	263	2,123,195	0.72	7	59,664	0.02	270	2,182,859	0.74
10,001 - 50,000	304	7,025,324	2.38	6	137,700	0.05	310	7,163,024	2.43
50,001 - 100,000	56	4,024,084	1.37	4	274,157	0.09	60	4,298,241	1.46
100,001 - 500,000	50	8,893,332	3.01	4	1,287,800	0.44	54	10,181,132	3.45
500,001 - 1,000,000	5	3,528,351	1.20	-	-	-	5	3,528,351	1.20
1,000,001 & above	15	205,354,327	69.60	2	58,868,160	19.95	17	264,222,487	89.55
	<b>4,019</b>	<b>234,376,887</b>	<b>79.44</b>	<b>44</b>	<b>60,664,199</b>	<b>20.56</b>	<b>4,063</b>	<b>295,041,086</b>	<b>100.00</b>

### Analysis 1.1

	2015			2014		
	No. of Shareholders	No. of Shares	% of Shareholding	No. of Shareholders	No. of Shares	% of Shareholding
Resident Share Holders	4,019	234,376,887	79.44	4,183	231,216,525	78.37
Non Resident Share Holders	44	60,664,199	20.56	51	63,824,561	21.63
<b>Total</b>	<b>4,063</b>	<b>295,041,086</b>	<b>100.00</b>	<b>4,234</b>	<b>295,041,086</b>	<b>100.00</b>

## Analysis 2

Range of Shareholding	Individual			Company			Totals		
	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	817	31,472	0.01	11	811	0.00	828	32,283	0.01
101 - 1,000	1,489	781,580	0.26	40	19,498	0.01	1529	801,078	0.27
1,001 - 5,000	959	2,533,329	0.86	31	98,302	0.03	990	2,631,631	0.89
5,001 - 10,000	244	1,969,537	0.67	26	213,322	0.07	270	2,182,859	0.74
10,001 - 50,000	279	6,404,253	2.17	31	758,771	0.26	310	7,163,024	2.43
50,001 - 100,000	50	3,587,599	1.22	10	710,642	0.24	60	4,298,241	1.46
100,001 - 500,000	41	7,859,948	2.66	13	2,321,184	0.79	54	10,181,132	3.45
500,001 - 1,000,000	4	2,728,351	0.92	1	800,000	0.27	5	3,528,351	1.19
1,000,001 & above	9	155,632,115	52.75	8	108,590,372	36.81	17	264,222,487	89.56
	<b>3,892</b>	<b>181,528,184</b>	<b>61.52</b>	<b>171</b>	<b>113,512,902</b>	<b>38.48</b>	<b>4,063</b>	<b>295,041,086</b>	<b>100.00</b>

## Analysis 2.1

	2015			2014		
	No. of Shareholders	No. of Shares	% of Shareholding	No. of Shareholders	No. of Shares	% of Shareholding
Individuals	3,892	181,528,184	61.52	4,069	178,205,263	60.40
Company	171	113,512,902	38.48	165	116,835,823	39.60
<b>Total</b>	<b>4,063</b>	<b>295,041,086</b>	<b>100.00</b>	<b>4,234</b>	<b>295,041,086</b>	<b>100.00</b>

## 4. Information on Ratios and Market Prices

### 4.1 Ordinary Shares

#### i) Ratios

Year	2015 Rs.	2014 Rs.
Dividend Per Share	0.50	-
Net Asset Value Per Share	19.57	16.05

#### ii) Market Price

Year	Highest Rs.	Lowest Rs.	Year End Rs.
2015	29.50	21.00	27.10
2014	27.20	21.80	25.90

# Investor Relations

## iii) Market Capitalisation

Market Capitalisation as at 31st December 2015 - Rs. 7,995,613,430/- (31st December 2014 - Rs. 7,641,564,127/-)

## 4.2 Debentures

### i) Interest Rates and Market Price

	Interest Rate%	Interest Rate of Comparable Govt. Security%	Market Price (Rs.)
<b>Debenture - 2012/2017</b>			
Fixed Rate - Interest Semi Annually	11.25	8.69	1,037
Fixed Rate - Interest Annually	11.50	8.69	Not Traded
Floating Rate - Interest Semi Annually (6 Months Gross T-Bill Rate + 2.95%)	10.50	6.98	Not Traded
Fixed Rate - Interest at Maturity	14.50	8.69	Not Traded
<b>Debenture - 2014/2019</b>			
Fixed Rate - Interest Annually	9.75	10.20	Not Traded
Fixed Rate - Interest Semi Annually	9.5233	10.20	Not Traded
<b>Debentures - 2015/2018</b>			
Fixed Rate - Interest Semi Annually	9.50	9.72	Not Traded
Floating Rate - Interest Semi Annually (6 Months Net T-Bill Rate + 2.50%)	9.4175	6.98	Not Traded
<b>Debentures - 2015/2019</b>			
Fixed Rate - Interest Semi Annually	10.00	10.20	Not Traded
Floating Rate - Interest Semi Annually (6 Months Net T-Bill Rate + 3.00%)	9.9175	6.98	Not Traded

### ii) Ratios

Year	2015	2014
Statutory Liquid Assets Ratio		
Domestic Banking Unit (%)	24.39	21.88
Foreign Currency Banking Unit (%)	50.63	22.27

- 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 46 to 47 and Risk Management on pages 65 to 73.
- 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.

# Branch Network

1. JAFFNA DISTRICT
Chunnakam Jaffna Nelliady

2. KILINCHCHI DISTRICT
Kilinochchi

3. VAVUNIYA DISTRICT
Vavuniya

4. TRINCOMALEE DISTRICT
Trincomalee

5. ANURADHAPURA DISTRICT
Anuradhapura Kekirawa

6. PUTTALAM DISTRICT
Chilaw Puttalam Wennappuwa

7. KURUNEGALA DISTRICT
Kuliyapitiya Kurunegala

8. MATALE DISTRICT
Dambulla Galewela Matale

9. POLONNARUWA DISTRICT
Kaduruwela

10. BATTICALOA DISTRICT
Batticaloa Kattankudy

11. DIGAMADULLA 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 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 Kalubowila Kirulapone Kollupitiya Kotahena 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 Embipitiya Ratnapura

21. GALLE DISTRICT
Ambalangoda Galle

22. MATARA DISTRICT
Akuressa Matara

23. HAMBANTOTA DISTRICT
Ambalantota Tangalle



# Branch Network

No.	Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
1	Akkaraipattu	060	No 280, Kaiyoom Complex Building, Main Street, Akkaraipattu	Digamadulla	067-4924071	067-2279576	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
2	Akuressa	072	No 54, Matara Road, Akuressa	Matara	041-4935855	041-2284677	Weekdays : 9.00 AM to 4.00 PM Sunday : 9.00 AM to 1.00 PM
3	Ambalangoda	041	No 103, Galle Road, Ambalangoda	Galle	091-4943164	091-2258064	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
4	Ambalantota	053	No 155/1, Tissa Road, Ambalanthota	Hambantota	047-4931850	047-2225056	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
5	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
6	Badulla	045	No 22A, Bank Road, Badulla	Badulla	055-4976777	055-2225771	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
7	Balangoda	062	No 84, Barns Rathwatte Mawatha, Balangoda	Ratnapura	045-4928310	045-2289081	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
8	Bambalapitiya	009	No 329, Galle Road, Colombo 04	Colombo	011-4374055	011-2506825	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
9	Bandarawela	048	No 340/1A, Badulla Road, Bandarawela	Badulla	057-4976777	057-2233554	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
10	Battaramulla	063	No 123C, Pannipitiya Road, Battaramulla	Colombo	011-4343259	011-2885622	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
11	Batticaloa	040	No 291, 293 & 295, Trincomalee Road, Batticaloa	Batticaloa	065-4976777	065-2228486	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
12	Borella	031	No 996A, Maradana Road, Colombo 8	Colombo	011-4374207	011-2696461	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
13	Chilaw	036	No 15 & 17, Bazaar Street, Chilaw	Puttalam	032-4976777	032-2224756	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
14	Chunnakam	061	No 92, Dr. Subramaniam Road, Chunnakam	Jaffna	021-4923422	021-2241889	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
15	Colombo Gold Centre	078	No 48 GF & 53 UF, Colombo Gold Center, Central Super Market, Pettah	Colombo	011-4061241	011-2339383	Weekdays : 9.00 AM to 6.30 PM Saturday : 9.00 AM to 1.00 PM
16	Dam Street	019	No 22, Dam Street, Colombo 12	Colombo	011-4374130	011-2346052	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
17	Dambulla	049	Jayalanka Building, Kandy Road, Dambulla	Matale	066-4928970	066-2284844	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
18	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
19	Embilipitiya	038	No 49, New Town, Embilipitiya	Ratnapura	047-4976777	047-2261624	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
20	Galewela	071	No 201, Kurunegala Road, Galewela	Matale	066-4929970	066-2288320	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM

No.	Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
21	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
22	Gampaha	011	No 95, Colombo Road, Gampaha	Gampaha	033-4976777	033-2220048	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
23	Gampola	030	No 73E, Nuwara Eliya Road, Gampola	Kandy	081-4944625	081-2353998	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
24	Hatton	075	No 68, Co-Operate Square Building, Hatton	Nuwara Eliya	051-4932040	051-2225665	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
25	Homagama	076	No 381, High Level Road, Homagama	Colombo	011-4385740	011-2098484	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
26	Horana	077	No 95, Rathnapura Road, Horana	Kalutara	034-4941060	034-2266566	Weekdays : 9.00 AM to 6.00 PM Sunday : 9.00 AM to 1.00 PM
27	Ja-Ela	066	No 71A, Negombo Road, Ja-Ela	Gampaha	011-4344166	011-2232824	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
28	Jaffna	037	No 570, Hospital Road, Jaffna	Jaffna	021-4976777	021-2221485	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
29	Kadawatha	026	No 138, Kandy Road, Kadawatha	Gampaha	011-4374185	011-2925192	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
30	Kaduruwela	052	No 918, Batticaloa Road, Kaduruwela	Polonnaruwa	027-4976777	027-2224474	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
31	Kalmunai	042	No 100 & 104, Batticaloa Road, Kalmunai	Digamadulla	067-4976777	067-2225590	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
32	Kalubowila	047	No 46A, S D S Jayasinghe Mawatha, Kalubowila	Colombo	011-4374254	011-2828338	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
33	Kalutara	033	No 264, Main Street, Kalutara	Kalutara	034-4976777	034-2221258	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
34	Kandy	005	No 123, D S Senanayake Veediya, Kandy	Kandy	081-4976777	081-2232994	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
35	Kandy City Centre	044	No 5A, Lower Ground Floor, Kandy City Centre, No 5, Dalada Veediya, Kandy	Kandy	081-4951034	081-2205776	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.30 AM to 1.00 PM Sunday : 10.00 AM to 1.00 PM
36	Kattankudy	057	No 365, New Kalmunai Road, Kattankudy	Batticaloa	065-4926901	065-2248468	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
37	Katugastota	020	No 57, Kurunegala Road, Katugastota	Kandy	081-4946135	081-2500362	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
38	Kegalle	027	No 72 & 74, Main Street, Kegalle	Kegalle	035-4976777	035-2221018	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
39	Kekirawa	067	No 91 & 93, Main Street, Kekirawa	Anuradhapura	025-4928934	025-2264598	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
40	Kilinochchi	043	No 161, A9 Road, Kilinochchi	Kilinochchi	021-4925952	021-2280075	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM

# Branch Network

No.	Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
41	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
42	Kirulapone	022	No 100, High Level Road, Kirulapone, Colombo 06	Colombo	011-4374152	011-2515227	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
43	Kollupitiya	003	No 450, Galle Road, Colombo 03	Colombo	011-4667777	011-2301150	Weekdays : 7.00 AM to 10.00 PM Saturday : 7.00 AM to 10.00 PM Sunday : 9.00 AM to 10.00 PM
44	Kotahena	014	No 215A, George R De Silva Mawatha, Colombo 13	Colombo	011-4374066	011-2346066	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
45	Kuliapitiya	046	No 74/3, Kurunegala Road, Kuliapitiya	Kurunegala	037-4943733	037-2284141	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
46	Kundasale	058	No 248, Digana Road, Kundasale	Kandy	081-4951644	081-2424624	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
47	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
48	Maharagama	023	No 173/1, High Level Road, Maharagama	Colombo	011-4374163	011-2838397	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
49	Malabe	035	No 410/2, Athurugiriya Road, Malabe	Colombo	011-4374218	011-2744405	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
50	Matale	039	No 165, Trincomalee Street, Matale	Matale	066-4976777	066-2223007	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
51	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
52	Minuwangoda	069	No 42, Veyangoda Road, Minuwangoda	Gampaha	011-4335770	011-2295929	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
53	Monaragala	059	No 25, Bus Stand Road, Monaragala	Monaragala	055-4929313	055-2277223	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
54	Moratuwa	024	No 18, New Galle Road, Moratuwa	Colombo	011-4374174	011-2641354	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
55	Narahenpita	021	No 526, Elvitigala Mawatha, Colombo 05	Colombo	011-4374141	011-2368667	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
56	Nawala	079	No 162, Nawala Road, Nugegoda	Colombo	011-4322814	011-2853043	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
57	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
58	Nelliady	056	No 208A, Jaffna Road, Nelliady	Jaffna	021-4923164	021-2262969	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
59	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
60	Old Moor Street	018	No 314, Old Moor Street, Colombo 12	Colombo	011-4374099	011-2392897	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM

No.	Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
61	Panadura	017	No 506, Galle Road, Panadura	Kalutara	038-4976777	038-2243053	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
62	Panchikawatta	002	No 262 & 266, Sri Sangaraja Mawatha, Colombo 10	Colombo	011-4374011	011-2447452	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
63	Peradeniya	051	No 767, 769 & 769/1/1 Sirimawo Bandaranayake Mawatha, Kandy	Kandy	081-4951180	081-2232441	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
64	Pettah	004	No 64, Keyzer Street, Colombo 11	Colombo	011-4374022	011-5363652	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
65	Pilimathalawa	065	No 207, Colombo Road, Pilimathalawa	Kandy	081-4951870	081-2575335	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
66	Piliyandala	055	No 107, Horana Road, Mampe, Piliyandala	Colombo	011-4376251	011-2604070	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
67	Puttalam	064	No 116A, Kurunegala Road, Puttalam	Puttalam	032-4929662	032-2267967	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
68	Rajagiriya	006	No 468, Kotte Road, Rajagiriya	Colombo	011-4374033	011-2866823	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
69	Ratmalana	050	No 446, Galle Road, Ratmalana	Colombo	011-4374261	011-2738840	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
70	Ratnapura	007	No 198, Main Street, Ratnapura	Ratnapura	045-4976777	045-2231848	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
71	Tangalle	074	No 3, Annapitiya Road, Tangalle	Hambantota	047-4929626	047-2241215	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
72	Thalawathugoda	068	No 351/E, Pannipitiya Road, Thalawathugoda	Colombo	011-4344650	011-2796016	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
73	Trincomalee	073	No 459, Dockyard Road, Trincomalee	Trincomalee	026-4925525	026-2225700	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
74	Vavuniya	034	No 14, 2nd Cross Street, Vavuniya	Vavuniya	024-4976777	024-2225444	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
75	Warakapola	070	No 139, Kandy Road, Warakapola	Kegalle	035-4928777	035-2267544	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
76	Wattala	016	No 134, Old Negombo Road, Wattala	Gampaha	011-4374088	011-2945104	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
77	Wellawatte	029	No 135, Galle Road, Wellawatte	Colombo	011-4374196	011-2362399	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
78	Wennappuwa	028	No 6, Chilaw Road, Wennappuwa	Puttalam	031-4934870	031-2249556	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
79	World Trade Centre	001	Level 2, East Tower, World Trade Center, Echelon Square, Colombo 01	Colombo	011-4976777	011-2346053	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM

# Correspondent Banks

## 1. CANADA

Bank of Montreal
Bank of Nova Scotia
Royal Bank of Canada
Toronto Dominion
Canadian Imperial Bank of Commerce

## 2. UNITED STATES OF AMERICA

Standard Chartered Bank
American Express Bank Ltd.
Bank of New York
CitiBank NA
Deutsche Bank AG
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.

## 3. MEXICO

ABN Amro Bank (Mexico), S.A.
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## 4. PERU

Banco Wiese Sudameris
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## 5. CHILE

Banco Santander Chile
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## 6. BRAZIL

Banco ABN Amro Real SA
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## 7. DENMARK

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

## 8. IRELAND

National Irish Bank
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## 9. UNITED KINGDOM

Arab National Bank
Bank of Ceylon
Deutsche Bank AG
Habib Bank AG Zurich
Mashreq Bank PSC
Shinhan Bank, London Branch
Standard Chartered Bank

## 10. FRANCE

Commerzbank AG
Union De Banques Arabes ET Francaises

## 11. NETHERLANDS

ABN-Amro Bank NV
Habib Bank Ltd.

## 12. SPAIN

Deutsche Bank Sociedad Anonima Espanola
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## 13. GERMANY

American Express Bank GMBH
Bayerische HYPO – UND Vereins Bank AG
Commerz Bank AG
Deutsche Bank AG
Deutsche Bank Privat UND
Geshaeftskunden AG
Dresdner Bank AG
Landesbank Hessen – Thueringen
Girozentrale
Sparkasse Essen

## 14. SWITZERLAND

Habib Bank AG Zurich
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## 15. SWEDEN

Danske Bank AS, Sverige Filial
Svenska Handelsbanken
Swedbank

## 16. NORWAY

Skandinaviska Enskilda Banken
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## 17. BELGIUM

Fortis Bank SA/NV Brussels
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## 18. SLOVENIA

Bank Austria Creditanstalt D.D.
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## 19. ITALY

Banca Intesa Spa
Banca Lombarda E Piemontese S.P.A.
Banca Nazionale Del Lavoro 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

## 20. HUNGARY

Kereskedelmi ES Hitel Bank RT
Raiffeisen Bank ZRT

## 21. AUSTRIA

Bank Austria Creditanstalt AG
Reichische Volksbanken AG

## 22. CZECH REPUBLIC

HVB Bank Czech Republic A.S
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## 23. TURKEY

Tekstil Banksai A.S.
Turkiye Garanti Bankasi A.S.

## 24. CYPRUS

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

## 25. ISRAEL

Israel Discount Bank Ltd
Mercantile Discount Bank Ltd.

## 26. JORDAN

Standard Chartered Bank
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## 27. KUWAIT

Burgan Bank
National Bank of Kuwait

## 28. BAHRAIN

Standard Chartered Bank
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## 29. QATAR

Standard Chartered Bank
Mashreq Bank

## 30. 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

## 31. OMAN

Standard Chartered Bank
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## 32. SAUDI ARABIA

Al-Rajhi Bank
Saudi Hollandi Bank Ltd.
Bank of Al- Jazira

## 33. KENYA

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

## 34. ZIMBABWE

ABSA Bank Limited
Standard Chartered Bank Zambia Ltd
Standard Chartered Bank Zimbabwe Ltd

## 35. SOUTH AFRICA

HBZ Bank Ltd
State Bank of India

## 36. MAURITIUS

Mauritius Commercial Bank Ltd
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## 37. SEYCHELLES

Bank of Ceylon
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## 38. MALDIVES

Bank of Ceylon
Bank of Maldives PLC

## 39. INDIA

Bank of Ceylon
Bank of Nova Scotia
Citi Bank NA
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



#### 40. PAKISTAN

Dawood Bank Ltd  
MCB Bank Ltd  
Standard Chartered Bank  
Summit Bank Ltd  
Habib Metropolitan Bank Limited

#### 41. RUSSIA

International Moscow Bank

#### 42. NEPAL

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

#### 43. BANGLADESH

Bank Asia Ltd  
Standard Chartered Bank

#### 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. JAPAN

UBAE Arab Italian Bank S. P. A  
Bank of Tokyo Mitsubishi UFJ Ltd  
CitiBank NA  
Daishi Bank Ltd  
Commerzbank AG  
Deutsche Bank 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

#### 46. THAILAND

CitiBank NA  
Kasikornbank Public Company Ltd  
Oversea-Chinese Banking Corporation Ltd,  
Standard Chartered Bank (Thai) Plc  
United Overseas Bank (Thai) Public Company Ltd

#### 47. HONG KONG

Australia & New Zealand Banking Group Ltd.  
Banca Intesa S.P.A.  
CitiBank NA  
Deutsche Bank AG  
HBZ Finance Ltd.  
Mashreq Bank PSC  
Oversea-Chinese Banking Corporation Ltd  
Standard Chartered Bank (Hong Kong) Ltd  
UBAF (Hong Kong) Ltd  
Unicredito Italiano SPA  
Wachovia Bank, NA

#### 48. KOREA

Citibank Korea INC  
Deutsche Bank AG,  
Kookmin Bank  
Korea Exchange Bank  
Shinhan Bank  
Standard Chartered First Bank Korea Ltd  
UBAF - Union De Banques Et Francaises  
Woori Bank, Seoul

#### 49. VIETNAM

Australia and New Zealand Banking Group Ltd  
Citi Bank NA  
Standard Chartered Bank

#### 50. TAIWAN

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

#### 51. CAMBODIA

ANZ Royal Bank of Cambodia Ltd

#### 52. PHILIPPINES

Citi Bank NA  
Standard Chartered Bank

#### 53. SINGAPORE

Bank of America, N.A. Singapore  
Calyon  
CitiBank N.A.  
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  
U.B.A.F. - Union De Banques Arabes Et Francaises  
United Overseas Bank Ltd

#### 54. MALAYSIA

Deutsche Bank (Malaysia) Berhad  
OCBC Bank (Malaysia) Berhad  
Standard Chartered Bank Malaysia Berhad

#### 55. INDONESIA

Bank Negara Indonesia - PT  
Bank NISP  
Bank OCBC Indonesia, PT  
CitiBank NA  
Deutsche Bank AG  
Standard Chartered Bank

#### 56. SOLOMON ISLANDS

Pan Oceanic Bank

#### 57. AUSTRALIA

ANZ Banking Group Ltd  
Citibank NA, Sydney  
Commonwealth Bank of Australia  
National Australia Bank Ltd  
St. George Bank Ltd.

#### 58. NEW ZEALAND

ANZ National Bank Ltd.  
Citi Bank N.A

#### 59. POLAND

ING Bank Slaski S.A.

#### 60. ROMANIA

HVB Bank Romania SA

#### 61. SERBIA

Unicredit Bank SRBIJA A.D

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# 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 equivalent.

### 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.

### Assets and Liabilities Committee (ALCO)

A risk-management committee in a Bank that generally comprises the corporate and senior-management levels of the institution. 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, market risk, foreign exchange 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 interchangeably.

## C

### Call Deposits or Call Money

Deposits or funds lent out which are repayable on demand.

### Capital Adequacy Ratio

The relationship between capital and risk weighted Assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

### 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.

### 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 operating expenses excluding Loan Loss Provision and taxes 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 an entity's Statement of Financial Position.

### Derivatives

Financial contracts whose values are derived from the values of underline Assets.

### Documentary Letters of Credit (L/Cs)

Written undertakings by a Bank on behalf of its customers (typically an importer), favouring a third party (e.g. an exporter) where the third party could get paid up to a stipulated amount by fulfilling specific terms and conditions. Such undertakings are established for the purpose of facilitating trade.

## E

### Earnings per Share

Profit attributable to ordinary shareholders' divided by number of shares in issue during that period.

### Effective Interest Rate

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

### Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.



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# Glossary of Financial & Banking Terms

## 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 reporting date and the settlement / reporting 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.

### 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 Receivables.

### 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 interest earning 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 sale on initial recognition.

### Loss Given Default ('LGD')

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty

# Glossary of Financial & Banking Terms

## M

### Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

### Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

### Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

## 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.

### Non - Performing Advances Ratio (Gross)

Total Non - Performing Advances (net of Interest in Suspense) divided by total advances portfolio (net of Interest in Suspense).

### Nostro Account

A foreign currency current account maintained with another Bank, usually but not necessarily a foreign correspondent Bank.

## O

### Off-Balance Sheet Transactions

Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

### Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

### Open Credit Exposure Ratio

Total net Non Performing Loans and Advances expressed as a percentage of regulatory capital base.

## P

### Past Due

A Financial Asset is past due when a counterparty has failed to make a payment when contractually due.

### Provision for Loan Losses

A charge to income added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets to estimated realisable values.

### Projected Unit Credit Method

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

### Probability of Default (PD)

PD is an 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 judgment 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 Agreements

Contract to sell and subsequently repurchase securities at a specific date and price.

### Return on Assets

Profit for the year divided by the Average Assets.

### Return on Equity (ROE)

Profit for the year expressed as a percentage of average ordinary shareholders' Equity.

### Revenue Reserves

Reserves set aside for future distribution and investment.

### Reverse Repurchase Agreements

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.

### Shareholder's Funds

Total of issued and fully paid share capital and revenue reserves.

### Statutory Reserve Fund

Reserve created as per the provisions of the Banking Act No. 30 of 1988.

## T

### Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

### Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debt.

### Total Capital (Capital Base)

Total Capital is the sum of Tier I and Tier II 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 and debentures, 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.

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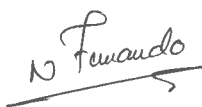
# Notice of Meeting

**NOTICE IS HEREBY GIVEN** that the **TWENTY FIRST 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 31st March 2016 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 2015 with the Report of the Auditors thereon.
2. To declare a final Dividend of Cents Fifty (Rs.0.50) per Ordinary Share, as recommended by the Board of Directors.
3. To re-elect R.E.U. De Silva, 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, T. Murakami, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.
5. To re-elect, A .A. Wijepala, in terms of Article 89 of the Articles of Association as a Director.
6. To re-elect, H.N.J.Chandrasekera, in terms of Article 89 of the Articles of Association as a Director.
7. To authorise the Directors to determine donations for the year 2016.

8. To re-appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.

By Order of the Board



**Nayantha Fernando**  
Company Secretary

Colombo  
17th February 2016

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 Bank. 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, 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.

## Notes



## Form of Proxy

I/We .....  
(NIC No/s ..... ) of .....being  
.....being  
a shareholder/being shareholders of Pan Asia Banking Corporation PLC, hereby appoint

1	Wannakawattawaduge Don Nimal Hemasiri Perera	of Colombo or failing him
	Ruwanpura Eshana Uvindra De Silva	of Colombo or failing him
	Mohan Asoka Abeynaike	of Colombo or failing him
	Mestiyage Don Saddhamangala Goonatilleke	of Colombo or failing him
	Tharana Gangul Thoradeniya	of Colombo or failing him
	Godewatta Arachchige Rasika Dimuth Prasanna	of Colombo or failing him
	Takashi Igarashi	of Colombo or failing him
	Toyohiko Murakami	of Colombo or failing him
	Sarath Bandara Rangamuwa	of Colombo or failing him
	Amarasinghe Arachchige Wijepala	of Colombo or failing him
	Handapangodage Nandasiri Jayaraja Chandrasekera	of Colombo or failing him
	Panagoda Liyanage Dimantha Neomal Seneviratne	of Colombo

as my/our\* proxy to vote on my/our\* behalf at the Twenty First Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 31st March 2016 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
<p><b>1. Resolution No. 1</b></p> <p>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 2015 with the Report of the Auditors thereon.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>2. Resolution No. 2</b></p> <p>To declare a Final Dividend of Cents Fifty (Rs.0.50) per Ordinary Share, as recommended by the Board of Directors.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>3. Resolution No. 3</b></p> <p>To re-elect R.E.U. De Silva, who retires by rotation at the Annual General Meeting in terms of Articles 82 &amp; 83 of the Articles of Association as a Director.</p>	<input type="checkbox"/>	<input type="checkbox"/>



# Form of Proxy

	For	Against
<b>4. Resolution No. 4</b> To re-elect T. Murakami, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
<b>5. Resolution No. 5</b> To re-elect A.A. Wijepala, in terms of Article 89 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
<b>6. Resolution No. 6</b> To re-elect H.N.J. Chandrasekera, in terms of Article 89 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
<b>7. Resolution No. 7</b> To authorise the Directors to determine the donations for the year 2016.	<input type="checkbox"/>	<input type="checkbox"/>
<b>8. Resolution No. 8</b> To re-appoint the Auditors of the Bank, Messrs Ernst & Young and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

As witness I/we\* have set my/our\* hand/s\* hereunto this ..... day of ..... Two Thousand and Sixteen.

.....

Signature of Shareholder.

Signature of Shareholder.

**Note :** Instructions as to completion of the Form of Proxy.

- 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 29th March 2016 being 48 hours before the time appointed for holding the meeting.
- In perfecting the form of proxy please ensure that all details are legible.
- The proxy appointed need not be a shareholder of Pan Asia Banking Corporation PLC.
- 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.
- 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\*.
- 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 in the Colombo Stock Exchange.

## Company Registration Number

PQ 48

## Registered Office/Head Office

No. 450, Galle Road,  
Colombo 03,  
Sri Lanka.

Telephone : +94112565565

+94114667777

Fax : +94112565558

## Call Center (24/7 Customer Service Hotline)

Telephone : +94114667222

Fax : +94112575023

SWIFT Code : PABSLKX

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) 295,041,086 Ordinary Shares
- ii) 2012/2017 Debentures - 750,000 Rated, Unsecured Subordinated Redeemable Debentures of Rs.1,000/- each
- iii) 2014/2019 Debentures - 30,000,000 Rated, Unsecured Subordinated Redeemable Debentures of Rs.100/- each
- iv) 2015/2018 and 2015/2019 Debentures - 40,000,000 Rated, Unsecured, Senior, Redeemable Debentures of Rs.100/- each

## Board of Directors

W. D. N. H. Perera	- Chairman
R. E. U. De Silva	- Deputy Chairman
M. A. Abeynaïke	- Senior Director
M. D. S. Goonatilleke	- Director
T. G. Thoradeniya	- Director
G. A. R. D. Prasanna	- Director
T. Igarashi	- Director
T. Murakami	- Director
S. B. Rangamuwa	- Director
A. A. Wijepala	- Director
H. N. J. Chandrasekera	- Director
P. L. D. N. Seneviratne	- Director/ Chief Executive Officer

## Company Secretary

N. Fernando

## Board Audit Committee

M. A. Abeynaïke - Chairman  
M. D. S. Goonatilleke - Director  
T. Murakami - Director  
A. A. Wijepala - Director

## Board Credit Committee

R. E. U. De Silva - Chairman  
T. G. Thoradeniya - Director  
S. B. Rangamuwa - Director  
H. N. J. Chandrasekera - Director  
P. L. D. N. Seneviratne - Director/ Chief Executive Officer

## Board Integrated Risk Management Committee

M. D. S. Goonatilleke - Chairman  
G. A. R. D. Prasanna - Director  
T. Igarashi - Director  
P. L. D. N. Seneviratne - Director/ Chief Executive Officer

## Board Human Resources and Remuneration Committee

W. D. N. H. Perera - Chairman  
M. A. Abeynaïke - Director  
T. G. Thoradeniya - Director  
P. L. D. N. Seneviratne - Director/ Chief Executive Officer

## Board Nomination Committee

R. E. U. De Silva - Chairman  
W. D. N. H. Perera - Director  
M. A. Abeynaïke - Director

## Board Strategic Planning Committee

M. A. Abeynaïke - Chairman  
M. D. S. Goonatilleke - Director  
T. G. Thoradeniya - Director

## Board Related Party Transactions Review Committee

R. E. U. De Silva - Director  
M. A. Abeynaïke - Director  
A. A. Wijepala - Director  
P. L. D. N. Seneviratne - Director/ Chief Executive Officer

## 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) Negative Outlook  
Subordinated Debentures 2012/2017 - Fitch Rating : 'BBB-(lka)'  
Senior Debentures 2015/2018 - Fitch Rating 'BBB (lka)'  
Senior Debentures 2015/2019 - Fitch Rating 'BBB (lka)'

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