PAN ASIA BANK
The Truly Sri Lankan Bank

Annual Report 2021

A Story of Progress

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

A Story of Progress

Our journey has been one that always finds a will, and therefore a way. Through good times and bad, we have never strayed from our goal of empowering a progressive Sri Lanka.

As the 'Truly Sri Lankan Bank', Pan Asia Bank has always been driven by the will to nurture long-term and sustainable economic benefits that will uplift the standards of the people and in turn, our nation. In this endeavour, we were inspired by our values, led by our outstanding team, and above all, counted on your trust as we carved a pathway towards an empowered and progressive nation.

The incredible unpredictability wrought by this pandemic on our bank has been a true test of our resilience. It is with pride that we report that your bank performed exceedingly well, supporting not just the needs of today but preparing for the challenges of tomorrow by promoting inclusivity with the provision of financial solutions for all customer segments across the entire nation.

Ours is a story of a truly Sri Lankan bank. And that story is only just beginning.

Contents

Fulfilled Expectations

The power of progress is fundamental to human nature. Progress comes in all shapes and sizes and our most profound glimpse of progress has been the example of how we, as a nation, contributed to the recovery for millions of individuals. Of all the things that can boost motivation and perceptions, the single most important is making progress in meaningful work towards shared goals and milestones.

OVERVIEW

About Pan Asia Bank

PAN ASIA BANK
The Truly Sri Lankan Bank

Pan Asia Bank's secret to success is its 'Story of Progress' - a story of achieving one milestone after another, of raising the bar, of pioneering the banking industry, of serving customers with passion, and of doing good. The Bank has developed a unique reputation and culture of being ambitious, results-oriented, respectful and caring - a true testament of the brand's positioning.

As The Truly Sri Lankan Bank, Pan Asia Bank surmounted enormous macroeconomic and industry challenges caused by the pandemic to deliver resounding financial results to ensure long-term sustainability. At the centre of its success is its professional team that has worked tirelessly to achieve a common goal. The Bank's team is committed to ignite love and respect for the nation's rich heritage and culture as the Truly Sri Lankan Bank, encouraging staff to participate with enthusiasm and vigour in all CSR activities.

The Bank's financial performance has been characterised by strength and resilience and today, in its 26th year, Pan Asia Bank is one of the strongest banks in Sri Lanka. In addition to its impressive financial performance, Pan Asia Bank has been recognised in the recent past by many local and global reputed institutions for excellence in the Banking sphere. Pan Asia Bank was crowned as the 'Fastest Growing Commercial Bank in Sri Lanka - 2021' by the International Business Magazine Awards; the prestigious 'Best Bank for Treasury Activities Sri Lanka - 2021' award by the Global Banking & Finance Review; 'The Best Treasury and Cash Management Bank Sri Lanka 2021' by the International Business Magazine Awards; and 'The Best Bank in Treasury Management Sri Lanka 2021' by World Business Outlook Awards 2021, which demonstrates the Bank's prudent and Best-in-Class Treasury and Cash Management Operation.

Pan Asia Banks' spirit of innovation and growth coupled with a prudent approach to growth and risk has served it well in the most challenging year in the banking industry. Pan Asia Bank's prosperity is linked inextricably to the communities it serves, helping them to face challenges with confidence and conducting meaningful corporate social responsibility projects during the year.

Pan Asia Bank is making strong progress towards its goal of becoming the strongest bank in the nation, giving confidence to stakeholders and signature care for customers. In its story of progress, Pan Asia Bank pledges to enhance its products and services, while winning more accolades across all its functions.

Our Vision

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

Our Mission

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

Our Values

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

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

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

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

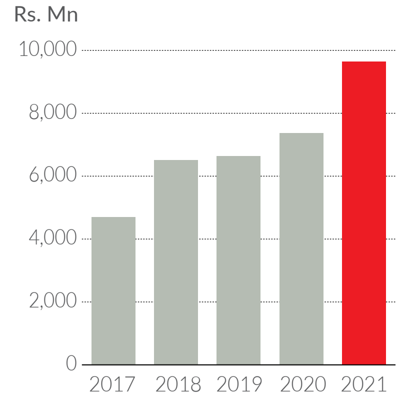
Commitment - We are dedicated to the success of our organisation and stakeholders, including customers, employees and ourselves.

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

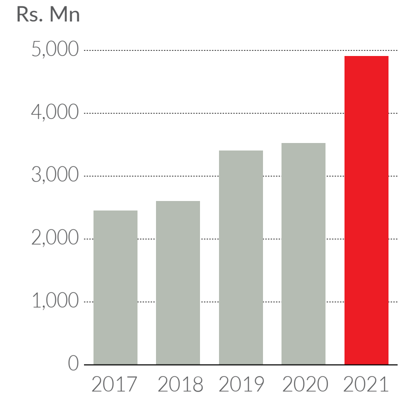
Financial Highlights

	2021	2020	Change %
Financial Performance (Rs. Mn)			
Gross Income	21,103.53	20,881.43	1.06
Net Interest Income	9,641.74	7,369.75	30.83
Net Fee and Commission Income	1,782.93	1,276.06	39.72
Total Operating Income	11,908.67	9,360.19	27.23
Operating Profit Before VAT on Financial Services	4,911.23	3,528.20	39.20
Profit Before Tax	4,033.65	2,838.17	42.12
Profit for the Year	3,075.36	2,048.17	50.15
Financial Position (Rs. Mn)			
Gross Loans and Advances	150,684.02	130,751.78	15.24
Total Assets	189,511.67	176,940.41	7.10
Due to Depositors	146,433.82	141,079.71	3.80
Shareholders' Funds	18,553.51	15,397.17	20.50
Profitability			
Net Interest Margin (%)	5.18	4.41	17.46
Return on Equity (%)	18.03	14.36	25.56
Return on Assets-After Tax (%)	1.65	1.23	34.15
Cost-to-Income Ratio (%)	38.85	45.25	(14.14)
Investor Information			
Earnings per Share (Rs.)	6.95	4.63	50.11
Net Asset Value per Share (Rs.)	41.92	34.79	20.49
Market Price per Share (Rs.)	15.50	13.00	19.23
Earnings Yield (%)	44.84	35.62	25.88
Price Earning Ratio (Times)	2.23	2.81	(20.64)
Price to Book Value (Times)	0.37	0.37	-
Market Capitalisation (Rs.Mn)	6,859.71	5,753.30	19.23
Statutory Ratios			
Capital Adequacy			
Common Equity Tier I Capital Ratio (%) (Minimum Requirement -2021- 7%, 2020-6.5%)	13.82	13.24	4.38
Total Tier I Capital Ratio (%) (Minimum Requirement - 2021- 8.5%, 2020-8%)	13.82	13.24	4.38
Total Capital Ratio (%) (Minimum Requirement -2021- 12.5%, 2020-12%)	15.97	15.74	1.46
Leverage Ratio (%) (Minimum Requirement - 3%)	8.40	6.70	25.37
Liquidity			
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)			
Domestic Banking Unit (%)	24.18	27.83	(13.12)
Foreign Currency Banking Unit (%)	58.42	42.36	37.91
Liquidity Coverage Ratio (Minimum Requirement -2021- 100%, 2020-90%)			
Rupee (%)	135.47	177.36	(23.62)
All Currency (%)	146.83	211.57	(30.60)
Net Stable Funding Ratio (%) - (Minimum Requirement - 2021- 100%, 2020-90%)	126.71	116.80	8.48
Asset Quality			
Regulatory Non Performing Advances Ratios (%)			
Gross	6.48	6.73	(3.71)
Net	0.18	2.34	(92.31)
Regulatory Provision Cover (%)	97.25	65.22	49.11
Stage 3 Loans (Impaired Loans) to Total Loans (%)	3.04	3.87	(21.45)
Stage 3 Loan Impairment to Stage 3 Loans (Stage 3 Provision Cover) (%)	51.23	48.05	6.62
Total Impairment Provision Cover (%)	78.39	68.45	14.52

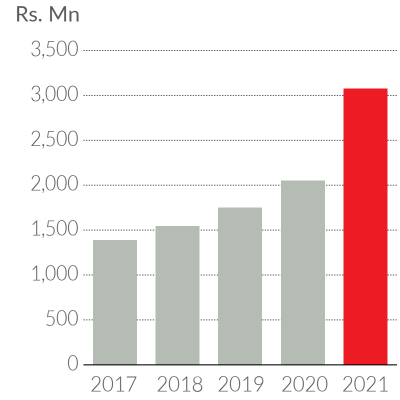
Net Interest Income



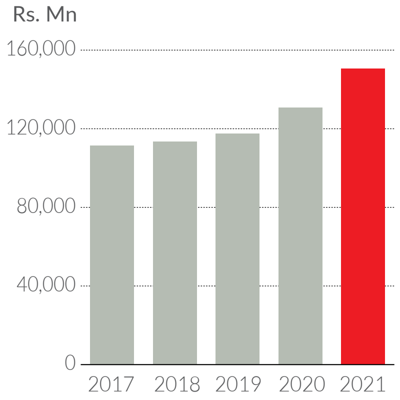
Operating Profit



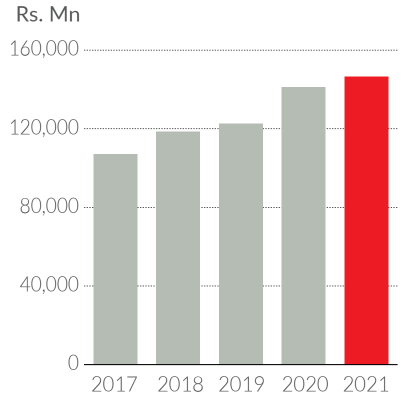
Profit for the Year



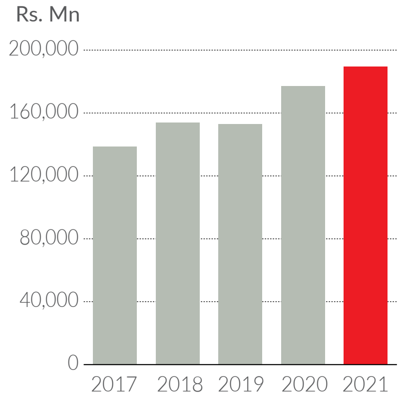
Loans and Advances



Deposits



Total Assets



Net Interest Margin

5.18%

Increased by 17.46%

Return on Assets - After Tax

1.65%

Increased by 34.15%

Return on Equity

18.03%

Increased by 25.56%

Earnings per Share

Rs.6.95

Increased by 50.11%

Cost-to-Income

38.85%

Improved by 14.14%

Net Asset Value per Share

Rs.41.92

Increased by 20.49%

Total Capital Ratio

15.97%

Increased by 23 bps

Net NPL Ratio

0.18%

Improved by 92.31%

CASA Ratio

29.94%

Improved by 18.99%

Accomplishments of the Year

1. Global Banking & Finance Awards **Best Green Bank in Sri Lanka 2021**

2. Global Banking & Finance Awards **Best Bank for Treasury Activities Sri Lanka 2021**

3. International Business Magazine Awards **Fastest Growing Commercial Bank Sri Lanka 2021**

4. International Business Magazine Awards **Best Treasury and Cash Management Bank Sri Lanka 2021**

5. World Business Outlook Awards **Best Bank in Treasury Management Sri Lanka 2021**

6. World Business Outlook Awards **Most Sustainable Green Bank Sri Lanka 2021**

7. World Economic Magazine Awards **Fastest Growing Commercial Bank Sri Lanka 2021**

8. World Economic Magazine Awards **Most Sustainable Green Bank Sri Lanka 2021**

9. World Economic Magazine Awards **Best Banking Product Sri Lanka 2021 (Sammana)**

10. World Economic Magazine Awards **Most improved Bank in profitability Management Sri Lanka 2021**

11. Infosys Finacle Innovation Awards 2021 **Process Innovation (Runners up) - Customer Centric Delinquency Management Solution with Predictive Analysis**

Proven Success

Our story of progress is a remarkable one – not just because of the growth we have achieved, but by the reputation we have as the truly Sri Lankan bank. Our intrinsic knowledge of the needs of our customers has enabled us to be at the forefront of supporting our people, becoming a reliable and resourceful partner they can count in every step of their life's journey.

EXECUTIVE REVIEWS AND MANAGEMENT INFORMATION

Chairman's Message

"Your Bank adapted to the evolving situation by moving ahead with resilience while prioritising the health and safety of its customers and employees"

S B Rangamuwa
Chairman

We have once again proven our resilience

Dear Shareholders,

I am pleased to welcome you to the 27th Annual General Meeting of Pan Asia Banking Corporation PLC, and to place before you the Annual Report and Audited Financial Statements for the financial year ending 31st December 2021. The world witnessed yet another challenging year in 2021 as pandemic-induced challenges persisted. Your Bank adapted to the evolving situation by moving ahead with resilience while prioritising the health and safety of its customers and employees, and delivering our best-ever financial performance.

Pan Asia Bank recorded an impressive Profit After Tax of Rs.3.08 billion in FY2021 as compared to Rs.2.05 billion in FY2020, marking strident growth across all parameters. Given the possibility of rising non-performing loans, the Board and relevant sub-committees focused on closely monitoring credit quality, secured lending strategies which kept the Bank's non-performing loans (NPL) ratio at reasonable levels and increased impairment provisions buffers for probable credit losses given the challenging macro-economic conditions.

Global Economy

Global recovery in output in 2021 was largely driven by robust consumer spending and some uptake in investment. Trade in goods bounced back, surpassing the pre-pandemic level. But growth momentum slowed considerably by the end of 2021 including in larger economies like China, the European Union and the United States of America, as the effects of fiscal and monetary stimuli dissipated and major supply-chain disruptions emerged. Growth impetus generally has been weaker in most developing countries and economies in transition. While higher commodity prices have helped commodity-exporting countries at large, rising food and energy prices have triggered rapid inflation. Recovery has been especially slow in tourism-dependent economies.

Since the onset of COVID-19, countries around the world have rolled out extraordinary measures to mitigate adverse economic and financial impacts. The monetary response has broadly followed the playbook of the 2008-2009 global financial crisis but with unprecedented speed, scale and scope. Central Banks aggressively cut short-term interest rates to increase liquidity, reduce borrowing costs and support economic activities. Central banks thus relied heavily on unconventional monetary policy tools, particularly large-scale asset purchase programmes to stabilise financial markets and stimulate recovery. After a global contraction of 3.4% in 2020 and following an expansion of 5.5% in 2021, the highest rate of growth in more than four decades, the world economy is projected to 4.1% in 2022 and 3.2% in 2023 as per the latest release of the World Bank.

Sri Lankan Economy

The Sri Lankan economy rebounded strongly from the COVID-19 pandemic induced contraction in 2020, expanding by an estimated 4% during 2021, registering a broad-based recovery in the major sectors of the economy. This recovery was underpinned by the policy stimuli provided by the Government and the Central Bank of Sri Lanka (CBSL) across a wide spectrum of businesses and individuals. The Government continued the fiscal stimulus measures announced in late 2019 by way of the low tax regime, among other direct financial support. Due to the unprecedented monetary policy support provided by CBSL during FY2020 and the maintenance of the same through the FY2021, market interest rates declined to historically low levels, thereby facilitating credit to businesses and individuals, and supplementing investment needed to revive the economy.

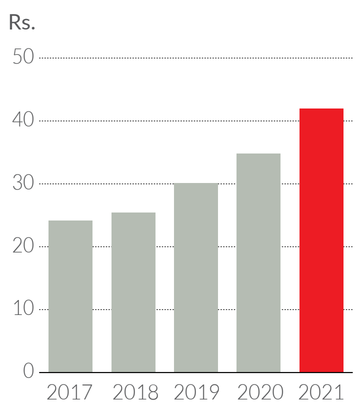
The low interest rate environment benefitted fiscal operations amidst restricted access to global financial markets amidst challenging global and domestic macroeconomic conditions stemming from the pandemic. The financial sector remained resilient during the period under review. While the COVID-19 pandemic has not spared any key economic sector, foreign exchange earning sectors pertaining to trade and tourism related activities were hard-hit

Profit for the Year

Rs. 3.08 Bn

Increased by 50.15%

Net Asset Value per Share



Chairman's Message

by the pandemic. In turn, this has been reflected in the decline in the foreign exchange flows to the country.

Banking Sector Performance

The banking sector displayed signs of expansion and resilience in terms of key indicators during the year amidst restrained economic activities in the local and the global economy due to the COVID-19 pandemic. Despite continuous stress faced by the sector in terms of foreign currency liquidity, the banking sector continued to operate with adequate levels of capital, statutory liquid assets ratios and provision coverage ratios during year. Further, capital ratios are expected to improve with retention of profits and raising of new capital to meet the increased minimum capital requirements. The overall banking sector performance improved despite overall economic challenges.

The Bank's Impressive Performance

Considering the unprecedented economic impact due to the pandemic, the Bank supported the customers through this difficult period through offering moratoriums, modifying terms of credit facilities to meet business requirements and providing working capital requirements while ensuring ease of access to the Bank's products and services across various platforms. In essence, Pan Asia Bank supported all its stakeholders through the year under review through every means at its disposal.

Meanwhile, the Bank consciously increased impairment provision buffers during the year under review to ensure that the Bank would have a cushion against the continuing effects of the COVID-19 pandemic on most areas of business although the loan portfolio enjoying debt moratorium at the year-end is as low as 1% of the Bank's total loan book.

As a seasoned bank, we operated on a note of optimism through the year, seeking opportunities amidst adversity. The Bank's impressive performance was made possible due to the tireless efforts of the entire team. Their safety and well-being were a top priority through the year. All operations were conducted in full compliance with COVID-19 health and safety protocols across all branches and premises of the Bank, which provided the peace of mind for our employees to come to work despite mobility restrictions and lockdowns. The future strategy of the Bank will be imbued with the same sense of discipline and the willingness to make sacrifices in order to support the nation in times of crisis.

Returns on Shareholders and Sound Capital Position

The Bank's Return on Equity of 18.03% and Return of Assets (After Tax) of 1.65% in FY2021 remained among the best in the industry. The strong earnings in FY2021 ensured the Bank's Net Asset Value per Share appreciated from Rs.34.79 to Rs.41.92 during past 12 months.

The Bank's Total Tier 1 Capital reached Rs.17.50 billion as at 31st December 2021 to end the year with a Tier 1 Capital Ratio of 13.82% which is much higher than the minimum standards set by the regulator. The Bank's focus remains firmly on elevating the Tier 1 Capital up to the mandated Rs. 20 billion by the due date and the Bank is confident that the set target could be achieved despite the challenging macro-economic conditions.

Digitalisation Drive

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

The strong digitalisation drive and the widening geographical footprint across the island helped the Bank to connect with new customers while providing even greater convenience to its existing loyal customer base. As the leading green financing Bank in the country, Pan Asia Bank encouraged customers to avail of its green financing to establish sustainable businesses.

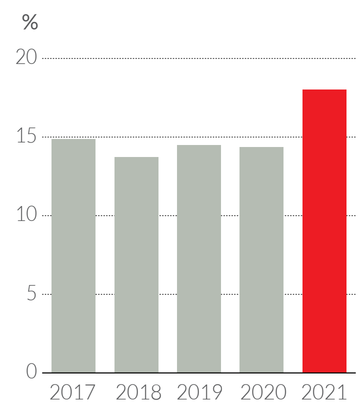
Embedding Sustainability

As the nation's green bank, Pan Asia Bank has been recognised locally and globally for its pioneering environmentally-friendly projects in banking and other initiatives to improve and preserve the environment in the country. As the Truly Sri Lankan Bank, Pan Asia Bank is acutely aware of the needs of the people, both at the grassroots and at the top of the economic pyramid - and has always devised banking products and solutions that address their concerns and fulfill their aspirations.

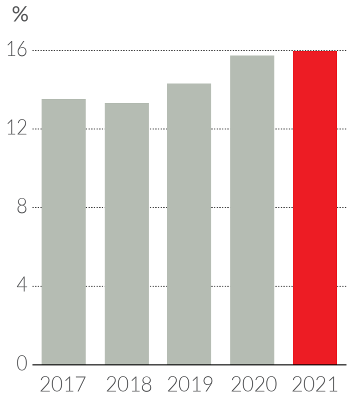
The Board and Good Governance

During the year, the Board further strengthened the corporate governance structure by adopting high ethical standards and practices to safeguard the financial stability of the Bank. All matters pertaining to the policies and procedures of the Bank are adequately deliberated at the Board and the Board committee levels and our discussions and decisions have been undisputed. Meanwhile all policy directions and guidance from regulatory authorities were complied with to the fullest.

Return on Equity



Total Capital Ratio



Pan Asia Bank is grateful to Mr. Dimuth Prasanna, the immediate past Chairman who retired on 29th April 2021 for his exceptional contribution to the Board both as the Chairman and a fellow board member during past nine years. Meanwhile Mr. Takashi Igarashi, who served the Board for nine years, retired in October 2021 upon completion of his term.

During the year we welcomed Mr. B.D.A. Perera as a Non-Executive, Independent Director w.e.f. 01st April 2021. He brings with him a wealth of experience in finance and leasing sectors which will prove important in this challenging period. In January 2022, the Board also welcomed both Ms. Sandra Walgama and Mr. Chethiya Umagiliya who bring in a wealth of experience with them. Ms. Walgama counts for over 40 years of banking experience and is specialised in Banking, Finance, Wealth Management, Corporate Banking, SME and Retail Banking. Mr. Umagiliya is a focused entrepreneur having experience in managing various businesses. These appointments have further strengthened the mix of knowledge and experience relevant to the Bank's strategic priorities.

Awards and Accolades

As one of the most awarded entities in the country, Pan Asia Bank received a host of local and international accolades for profitability improvement, growth, cash management, treasury function, green financing, product innovation and so on. Some of the key awards won during the year include Best Bank in Treasury Management Sri Lanka 2021, Most Sustainable Green Bank Sri Lanka 2021 and Best Banking Product Sri Lanka 2021 for the 'Sammana' product from World Business Outlook Awards; and Best Green Bank in Sri Lanka 2021 and Best Bank for Treasury Activities Sri Lanka 2021 from Global Banking & Finance Awards. The Bank was also recently recognised as the Runner-up in the 'Product Innovation' category of the Client Innovation Awards 2021, by Infosys Finacle, which reflects the Bank's commitment to drive innovation.

All these awards are a testament to Pan Asia Bank's commitment towards driving value for its customers, shareholders, employees and other stakeholders not only in one area but across all business pillars. These diverse recognitions prove that Pan Asia Bank has laid the foundation to be the preeminent financial services provider for the nation.

Looking Ahead

As an almost fully vaccinated nation, thanks to the Government's aggressive vaccination programme, Sri Lanka is positioned for a quick economic recovery in 2022. The resurgence of the tourism industry bodes well for improving the nation's forex position, supported by increased exports and worker remittances. Despite the difficulties faced in 2021, there is every reason for optimism in 2022 for the sector as a whole. On the policy side, market interest rates are expected to stabilise at a higher level in the period ahead. However, tightening of the monetary policy stance is not expected to result in a return to the excessively high interest rates that prevailed in the past. The market lending rates are expected to be at competitive levels to support sustainable credit flows to the private sector.

Over FY2021 Pan Asia Bank has evolved its strategy, refined core values and updated its brand to reflect the progress made over past 26 years and set out a more ambitious agenda to build a Truly Sri Lankan Bank. Pan Asia Bank will retain its focus on prudent lending strategies, close monitoring of credit quality, efficient recoveries and expansion of digitalisation to ensure stability. We have every reason to be proud of our performance through the pandemic period, which reflects our resilience and the ability to surmount odds with resilience. While challenges will remain, our sense of optimism and resilience will see Pan Asia Bank putting its best foot forward in the year ahead.

Appreciation

I take this opportunity to thank my colleagues on the Board for their invaluable support while commending the MD/CEO, Mr. Nimal Tillekeratne on his strong leadership and mature handling of yet another challenging year, ably supported by the corporate management team and the entire staff. Our performance in the year under consideration reflects the power of collective action towards a common goal.

My gratitude goes out to each of our stakeholders, especially our customers and shareholders for being true partners in this journey. Your support has inspired us to strive for even greater heights in the years ahead. I would also like to express my appreciation to the Central Bank of Sri Lanka, Securities and Exchange Commission of Sri Lanka, Colombo Stock Exchange, Ministry of Finance, Department of Inland Revenue and other regulatory bodies for their support during this time of uncertainty. The Pan Asia Bank Team and I will do our utmost to support you in every way possible as we move forward together.

S B Rangamuwa
Chairman

18th February 2022

Managing Director's Review

"Pan Asia Bank recorded a Profit After Tax (PAT) of Rs. 3.08 billion, the highest-ever in the 26-year history of the Bank, marking a 50.15% growth in bottom line over the previous financial year"

Nimal Tillekeratne
Managing Director/Chief Executive Officer

We continuously innovate to face the challenges

Dear Stakeholders,

I am pleased to state that in the financial year under review, Pan Asia Bank recorded a Profit After Tax (PAT) of Rs. 3.08 billion, the highest-ever in the 26-year history of the Bank, marking a 50.15% growth in bottom line over the previous financial year. Achieving these stellar financial results amidst the pandemic-induced challenges was no mean feat. While the banking sector grew overall after the period of de-growth in 2020, Pan Asia Bank continued to grow right through both 2020 and 2021. However, the GDP growth trend in 2021 has been positive and this supported the industry to bounce back in 2021. The steady growth trajectory of the Bank amidst tough conditions resulted in placing the institution on a sounder footing.

The Sri Lankan economy showed a robust recovery during the first half of 2021, and the economy is estimated to have grown by 4% year-on-year in 2021, compared to the contraction of 3.6% recorded during the corresponding period of 2020. The unprecedented policy support from the Government and the Central Bank of Sri Lanka helped a faster recovery of activity, alongside the expeditious containment of the pandemic through the rapid rollout of the COVID-19 vaccination programme.

Performance

Although almost all the business units of the Bank contributed to its healthy performance: retail sector performed strongly while the trade segment faced constraints due to decline in business activities in the market. Resisting the temptation to pursue unbridled growth, the Bank maintained a cautious approach to grow its lending book, but expects challenges that will be felt in 2022 as a result of the new taxes and the levies, which could have an impact on the overall profitability of the Bank. Although, the banking sector performed well overall, the return on investment in the sector remains low.

Pan Asia Bank's asset base remains fairly distributed - with more weight on the retail side rather than high-end SMEs and the corporates. On the retail side, fixed income earners and government servants constitute for over one-third of the Bank's loan book, which cushioned the impact of customers being unable to repay loans due to financial hardships during the year. Another positive development in 2021 was that the CASA ratio demonstrated a sharp growth from 25.16% in 2020 to 29.94% in 2021, which shows a great turnaround in the asset portfolio of the Bank. During 2021, operating costs were stringently monitored along with trimming staff numbers for greater optimisation.

Strategy and Execution

One of the key pillars of growth for Pan Asia Bank in 2021 was the decision to position the institution as the 'Truly Sri Lankan Bank'. As part of our brand-building efforts, a host of customer surveys and feedback revealed that the Bank was perceived to be a foreign entity and to change this perception the new market positioning campaign was undertaken. Since then the Bank has succeeded in taking its brand to a totally different level - attracting more customers with its local flavour and is now firmly perceived as a Truly Sri Lankan Bank.

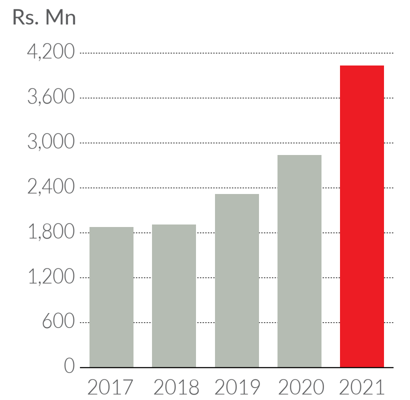
Adapting to the unfolding events during the period under review, the Bank's operating model was altered to suit the prevailing climate. Since interest rates were low, the Bank found that areas such as corporate lending and high-end SMEs suddenly seemed lucrative as in the past the Bank was unable to match the rates offered by large banks.

Operating Profit

Rs. 4.91 Bn

Increased by 39.20%

Profit Before Tax



Managing Director's Review

Regulatory Provision Cover

97.25%

Improved by 49.11%

Capitalising on the low interest regime, Pan Asia Bank forayed into catering to these segments and will continue to do so until interest rates remain low although they already seem to be on an upward trajectory.

Another breakthrough for the Bank in 2021 was the Gold loan portfolio which grew to Rs.13 billion in 2021 from Rs. 5.25 billion in the previous year after the product was realigned to better meet the needs of the market and the Bank. A highly effective marketing campaign was carried out for the pawning product, connecting to Sri Lankan values, which provided a real boost to the product. The newly-engineered product was realigned to market needs and pricing was in line with dollar exchange rates. Aggressive marketing of the new product resulted in the portfolio doubling within three months despite subdued market conditions.

Moreover, the Bank has changed its strategy of consumer loans by identifying the precise customer segment to which consumer loans would be extended. In the absence of this, lending to general customers affected recoveries as due to the pandemic the repayment capacity of many customers was affected. Moreover, once the moratorium period ends, it will have to be seen whether borrowers request yet another extension or repay the loans taken.

The Bank continues to serve the nation by providing financial assistance to SMEs, however, in recent years it has adopted a more cautionary approach to ensure the bottom line is not impacted due to volatility in the SME sector. This approach has proved helpful in an environment where SMEs have been badly impacted by the pandemic.

In 2021 Pan Asia Bank has increased its footprint in green funding with the agri sector and also built relationships with exporters, in order to capitalise on the two sectors that remain unaffected by the pandemic.

A strategic move was taken to market the treasury functions amongst exporters during the year to compensate for the decline in business activity amongst SMEs. In order to overcome the liquidity crunch, Pan Asia Bank took appropriate steps to ensure maximum withdrawal limits which helped stabilise the Bank and position it comfortably. Unfortunately, the lowering of the Sri Lankan sovereign credit rating during the year makes it challenging for raising debt in overseas markets as Pan Asia Bank relies on continuous credit lines from overseas partners and foreign currency deposits. In order to strengthen dollar reserves, the Bank continued to strengthen its ties with foreign funding institutions. The Bank has reconnected with partners in the Middle-East to facilitate remittances whilst also negotiating with exporters to the Middle East. This market will be a key focus going ahead to identify and capitalise on synergies.

Our People

Human capital is a key pillar for the Bank's success and achievements year after year. Pan Asia Bank invests considerable resources to ensure that the human resource practices in the organisation empower and enable employees to realise their true potential. During the year, the Bank was able to resolve the key challenge of attrition by providing employees a clear pathway to career progression and a transparent performance appraisal system by linking rewards to performance. Today, each and every staff member is cognizant of the goals and objectives of the Bank and is working collectively to achieve our common vision.

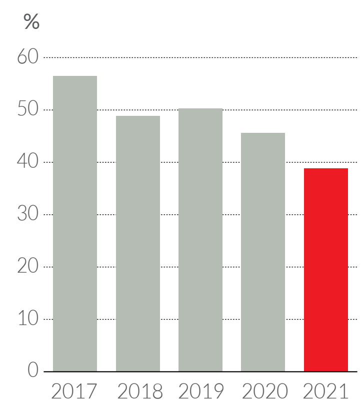
Governance

The Bank's internal governance policy is robust and encompasses a clear-cut vision to support growth plans in 2022. The governance framework is designed such that any negative influence is mitigated through a retinue of formal checks and balances. Independent committees operate with necessary oversight by the Board. The required strategic direction provided by the Board is articulated into the strategic plan for the business, which will be executed by the management. All these measures provide transparency and accountability towards all stakeholders, particularly the shareholders.

Awards and Accolades

A fitting end to the year under review was the accumulation of the most awards and accolades received by the Bank within 12 months for performance in diverse functions such as green banking, treasury, digital innovation, profitability management, rapid growth etc. Some of the awards that Pan Asia Bank won during the year include: Best Bank in Treasury Management Sri Lanka 2021, Most Sustainable Green Bank Sri Lanka 2021 and Best Banking Product Sri Lanka 2021 from World Business Outlook Awards; Best Green Bank in Sri Lanka 2021 and Best Bank for Treasury Activities Sri Lanka 2021 (Global Banking & Finance Awards) amongst many more prestigious accolades.

Cost to Income



Looking ahead

One of the positive impacts of the pandemic was the accelerated uptake of digital platforms and online financial transactions. Taking advantage of this trend, Pan Asia Bank expanded the capacity of its online offerings in corporate internet banking for external customers and enhanced its work from home flexible operations to facilitate staff and ensure uninterrupted services for customers. A higher level of governance and data security was ensured in compliance with the regulations laid down by Central Bank of Sri Lanka. Although the main objective during the year under consideration is to meet the Central Bank of Sri Lanka's capital requirement of Rs. 20 billion, the proposed new taxes and contributions will impact the internal capital generation on the sector as a whole. Meanwhile, the consciously increased provision buffers for probable credit losses would act as a cushion for potential losses.

The year 2021 started out on a promising note as the industry as a whole was anticipating the resurgence of business confidence, but the third wave caused subdued market conditions. Nevertheless, Pan Asia Bank achieved the projected 50% increase in bottom line in the face of many challenges. It is becoming increasingly hard to predict what the year 2022 will be like. If the pandemic recedes in Sri Lanka and the tourism sector shows a strong recovery, there will be some respite for the economy as the forex reserve position will improve.

Acknowledgements

I would like to place on record my appreciation to the Chairman and the Board Members for their support to navigate a difficult year. The entire team, with its dedication and hard work, has shown grace under pressure and helped the Bank reach ambitious growth targets, for which everyone should be proud. Considering the resounding financial results amidst a pandemic, Pan Asia Bank is well on its way to achieve an even better year ahead.

Nimal Tillekeratne

Managing Director/
Chief Executive Officer

18th February 2022

Board of Directors

1 2 9 3 4

1. S B Rangamuwa - Chairman 2. Aravinda Perera - Deputy Chairman 3. Mohan Abeynaike - Senior Director 4. Toyohiko Murakami - Director
5. Nihal Kekulawala - Director 6. B D A Perera - Director 7. Sandra Walgama - Director 8. Chethiya Umagiliya - Director
9. Nimal Tillekeratne - Managing Director/Chief Executive Officer 10. Nayantha Fernando - Deputy General Manager - Company Secretary


5
6
7
8
10

Board of Directors

1

S B Rangamuwa

Chairman

Mr. Rangamuwa was appointed as the Chairman in May 2021. He was appointed to the Board as a Director in August 2014 and was appointed as Deputy Chairman in January 2018. He is an experienced professional in management, finance, credit and marketing with over 30 years of senior management exposure having held key positions at strategic and operational levels.

Mr. Rangamuwa is the Managing Director of Vallibel Finance PLC since its launch and Managing Director of Vallibel Properties (Pvt) Ltd. He is a former Director of Mercantile Investments PLC and also had stints at Central Finance and Ernst & Young.

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

2

Aravinda Perera

Deputy Chairman

Mr. Aravinda Perera was appointed to the Pan Asia Bank Board in August 2017 and appointed as Deputy Chairman in May, 2021. He counts over 38 years in the banking sector and functioned as the Managing Director of Sampath Bank PLC from 01st January 2012, until his retirement in September 2016. He was appointed to the Pan Asia Bank Board in August 2017. Presently he is the Managing Director of Royal Ceramics Lanka PLC and Chairman of Singer Finance (Lanka) PLC. He is a Director of Hayleys PLC, Hayleys Aventura (Private) Ltd., Fentons Ltd and Hayleys Advantis Ltd. He is also a former Governing Board Member of the Institute of Bankers of Sri Lanka and Past President of Association of Professional Bankers, Sri Lanka. He is a Member of the Institute of Engineers of Sri Lanka (MIESL) and a Chartered Engineer (C.Eng.). He is also a Fellow of the Chartered Institute of Management Accountants (UK) (FCMA) and a Fellow of the Institute of Bankers - Sri Lanka (FIB). He also holds an MBA from the Postgraduate Institute of Management.

Mr. Perera was honoured with the 'CEO Leadership Achievement Award 2016' by the Asian Banker and was also the recipient of the prestigious 'Platinum Honours - 2014' award by the Postgraduate Institute of Management Alumni (PIMA) of Sri Jayewardenapura University. He was also honoured with the 'Award for the Outstanding Contribution to the Banking Industry - 2015' by the Association of Professional Bankers and was also awarded an Honorary Life Membership by the Association of Professional Bankers in October 2018.

3

Mohan Abeynaike

Senior Director

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

4

Toyohiko Murakami

Director

Mr. Murakami was appointed to the Board of Pan Asia Bank in April 2013. He is the Chief Executive Officer of Bansei Group, Japan. Mr. Murakami has over 35 years of experience in managing various business fields consisting of securities, finance, insurance and real estate. Mr. Murakami has a Bachelors Degree in Law from Kyoto University, Japan.

Mr. Murakami joined Bansei Securities Co., Ltd. in November 2005 and was appointed as the Executive Vice President in February 2006 and as the President and the CEO of the company in June 2009. He is also the Chairman of Bansei Hoken (Insurance) Community Co., Ltd., which is a sister company of Bansei Securities Co., Ltd. Formerly, Mr. Murakami was with Zenkoku Hosho Co., Ltd. from November 2005 - February 2006 and as a Director of H.S. Securities Co., Ltd. from October 2000 to August 2005. He is the Deputy Chairman of Bansei Royal Resorts Hikkaduwa PLC and Chairman of Bansei Holdings LK (Pvt) Ltd., Director of Bansei & NWS Consultancy (Pvt) Ltd., Bansei Securities Capital (Pvt) Ltd and Vallibel Finance PLC. He was appointed as a Director of Pan Asia Bank in April 2013.

5

Nihal Kekulawala

Director

Mr. Kekulawala counts over 30 years in the banking profession and was appointed as a Director in August 2016. He has held senior positions at Hatton National Bank PLC and played a strategic role in the diversification of HNB from commercial banking to investment banking, venture capital, stock brokering and life/general insurance. Mr. Kekulawala served as the lead consultant and was responsible for setting up a Commercial Banking Operation in the Solomon Islands. He functioned as the inaugural CEO of the bank. He presently serves on the Board of several public companies. Mr. Kekulawala is a Fellow of the Institute of Chartered Accountants UK and Sri Lanka, Fellow of the Chartered Institute of Bankers in England and has an MBA from the University of Manchester.

6

B D A Perera

Director

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

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

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

7

Sandra Walgama

Director

Ms. Sandra Walgama was appointed to the Board of Pan Asia Bank in January 2022. She was the former Senior Deputy General Manager - Personal Banking at Commercial Bank. She has over 40 years of banking experience and is specialised in Banking, Finance, Wealth management, Corporate banking and SME /Retail banking. She is a Director at CBC Myanmar Micro Finance Company Ltd. She was previously a Director as CBC Tech Solutions Limited. She is an Associate of the Institute of Bankers of Sri Lanka, Associate of the Institute of Administrative Accounting (London), and has a diploma in Bank management from the institute of Bankers of Sri Lanka and Diploma in Wealth management from the Chartered Institute for Securities and Investment London.

8

Chethiya Umagiliya

Director

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

9

Nimal Tillekeratne

Managing Director/Chief Executive Officer

Mr. Tillekeratne was appointed as Director/Chief Executive Officer in April 2017 and appointed as Managing Director/Chief Executive Officer in March, 2021. He counts over 44 years of service in the banking industry in Sri Lanka and overseas. He is an Associate of Institute of the Bankers, Sri Lanka and a passed finalist of Postgraduate Diploma in Business Statistics from University of Moratuwa. He started his career in banking with Commercial Bank of Ceylon PLC, and was the former Senior Deputy General Manager of Sampath Bank PLC and was also on the Board of Sampath Information Technology Solutions Limited, a wholly-owned subsidiary of Sampath Bank.

He was involved in setting up business processes at Cargills Bank for a short period and also was the Senior Deputy General Manager of Seylan Bank PLC overseeing bank's Core operations, trade service, remittances business, alternate banking and self service channels and process digitisation efforts, in addition to setting the Bank's branch expansion ambitions on course. He views process digitisation and automation as the way forward for quality customer service, cost control and growth in the retail banking sphere. His exposure to various disciplines in the banking industry is quite wide spread having headed operations, risk, branch credit, commercial credit, credit card business and collections at various banks locally and overseas.

10

Nayantha Fernando

Deputy General Manager - Company Secretary

Nayantha is an Attorney-at-Law with over 31 years of experience. She was appointed as the Bank's Company Secretary in 1998 and is serving the Bank for over two decades. She is also a member of the Association of Professional Bankers, Sri Lanka.

Corporate Management

1. **Nimal Tillekeratne** - Managing Director / Chief Executive Officer 2. **Naleen Edirisinghe** - Senior Deputy General Manager - Branch Credit
3. **Richie Dias** - Deputy General Manager - Treasury 4. **Nayantha Fernando** - Deputy General Manager - Company Secretary
5. **Upali Dharmasiri** - Deputy General Manager - Recoveries 6. **Jeremy De Zilva** - Deputy General Manager - Internal Audit
7. **Gerald Wanigaratne** - Deputy General Manager / Chief Information Officer

8. Varuni Egodage - Assistant General Manager - Legal 9. Harsha Kurukulasuriya - Assistant General Manager - Operations and Administration 10. Shiyan Perera - Assistant General Manager - Leasing and Consumer Loans 11. Rajendran Rangith - Assistant General Manager / Chief Risk Officer 12. Suranga Fernando - Assistant General Manager / Chief Financial Officer 13. Sampath Alwis - Assistant General Manager - Human Resources 14. Nimal Ratnayake - Assistant General Manager - Branch Credit

Corporate Management

1

Nimal Tillekeratne

Managing Director / Chief Executive Officer

Mr. Tillekeratne was appointed as Director/Chief Executive Officer in April 2017 and appointed as Managing Director/Chief Executive Officer in March, 2021. He counts over 44 years of service in the banking industry in Sri Lanka and overseas. He is an Associate of Institute of the Bankers, Sri Lanka and a passed finalist of Postgraduate Diploma in Business Statistics from University of Moratuwa. He started his career in banking with Commercial Bank of Ceylon PLC, and was the former Senior Deputy General Manager of Sampath Bank PLC and was also on the Board of Sampath Information Technology Solutions Limited, a wholly-owned subsidiary of Sampath Bank.

He was involved in setting up business processes at Cargills Bank for a short period and also was the Senior Deputy General Manager of Seylan Bank PLC overseeing bank's Core operations, trade service, remittances business, alternate banking and self service channels and process digitisation efforts, in addition to setting the Bank's branch expansion ambitions on course. He views process digitisation and automation as the way forward for quality customer service, cost control and growth in the retail banking sphere. His exposure to various disciplines in the banking industry is quite wide spread having headed operations, risk, branch credit, commercial credit, credit card business and collections at various banks locally and overseas.

2

Naleen Edirisinghe

Senior Deputy General Manager - Branch Credit

Naleen has 35 years of banking experience in commercial banks specialising in Retail and SME Banking including Credit, Recoveries, Project Financing and Branch Operations.

He holds an MSc in Management from the University of Sri Jayewardenepura. He is also a Fellow Member of the Institute of Bankers of Sri Lanka, Fellow of the Certified Professional Managers, a member of the Association of Professional Bankers, Sri Lanka and Certified as a Life and Business Coach from Sri Lanka Institute of Training & Development.

3

Richie Dias

Deputy General Manager - Treasury

Richie has 41 years of banking experience in Sri Lanka and overseas and has vast exposure in Fundamental Principles of Market, Liquidity and Operational Risk Management techniques.

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

4

Nayantha Fernando

Deputy General Manager - Company Secretary

Nayantha is an Attorney-at-Law with over 31 years of experience. She was appointed as the Bank's Company Secretary in 1998 and is serving the Bank for over two decades. She is also a member of the Association of Professional Bankers, Sri Lanka.

5

Upali Dharmasiri

Deputy General Manager - Recoveries

Upali counts over 34 years of experience in banking which includes over 17 years at Senior and Corporate Management capacities.

He holds an Economic (Special) Degree from the University of Sri Jayewardenepura and successfully completed a Strategic Management Programme at the National University of Singapore (NUS). He is a Life Member of the Association of Professional Bankers, Sri Lanka.

6

Jeremy De Zilva

Deputy General Manager - Internal Audit

Jeremy counts over 31 years of banking experience in both local and foreign banks which includes over 21 years at Senior and Corporate Management capacities.

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

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

7

Gerald Wanigaratne

Deputy General Manager / Chief Information Officer

Gerald has over 31 years of banking experience. He has served in both local and foreign banks gaining experience in Branch Operations, Credit and Audit prior to moving to Information Technology.

He has an MBA in Information Systems from the University of Wales and is a non practicing Certified Information System Auditor (CISA) and Certified Information System Manager (CISM) awarded by the Information Systems Audit and Control Association, USA.

8

Varuni Egodage

Assistant General Manager - Legal

Varuni counts over 23 years of banking experience in the field of Law.

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

9

Harsha Kurukulasuriya

Assistant General Manager - Operations and Administration

Harsha counts over 34 years of experience in both local and overseas banks specialised in Branch Banking and all areas of branch and centralised operations.

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

10

Shiyan Perera

Assistant General Manager - Leasing and Consumer Loans

Shiyan counts over 26 years of experience in both Banking and Leasing industries.

11

Rajendran Rangith

Assistant General Manager /Chief Risk Officer

Rangith counts over 21 years of experience in Banking out of which 10 years in the Senior Management capacity.

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

12

Suranga Fernando

Assistant General Manager / Chief Financial Officer

Suranga counts for over 15 years of experience in the fields of Banking, Financial Management, Corporate Planning, Auditing and Taxation.

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

13

Sampath Alwis

Assistant General Manager - Human Resources

Sampath counts over 25 years of overall experience in the field of Human Resources in diverse industries including Manufacturing, Travel & Tourism, Apparel, BPO, IT, Finance & Accounting, Retail and FMCG.

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

14

Nimal Ratnayake

Assistant General Manager - Branch Credit

Nimal counts 30 years of experience in the Banking industry covering Branch Banking, Credit evaluation and disbursement, Recovery of credit facilities, regulatory compliance and exposure to all areas of risk.

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

Senior Management

Umaharan Jeganathan
Chief Manager - Consumer Credit

Yohan Ebell
Chief Manager - Recoveries

Thushari Malalgoda
Chief Manager - Human Resources

Harsha Samaranayake
Chief Manager - Corporate Banking

Charith Leelarathne
Chief Manager - Internal Audit

Sirimevan Senevirathne
Chief Manager - Marketing

Buddhika Perera
Chief Manager - Deposit Mobilization

Nilanga De Silva
Chief Manager - Treasury

Anushka Wimalasena
Chief Manager - Operations

Dharshanee Keerthiratne
Chief Manager - Branch Credit

Thilani Punyawansa
Senior Manager II / Chief Compliance Officer

Sanjaya Weerasekera
Senior Manager II - Credit Risk

Nilan Fernando
Senior Manager II - Branch Credit

Kithsiri Weerakoon
Senior Manager II / Area Manager - Colombo South

Thilini Ramanayake
Senior Manager II - System Development and IT Projects

Indika Liyanage
Senior Manager II - Trade Operations and Financial Institutions

Chaminda Samarawickrama
Senior Manager II - Card Center

Thushara Suraweera
Senior Manager - Branch

Anuradha Gamage
Senior Manager - Leasing

Chamath Atukorale
Senior Manager - Treasury Middle Office

Renuka Kurukulasuriya
Senior Manager - Branch

Renuka Premkumar
Senior Manager - Branch

Aravinda Rodrigo
Senior Manager - Corporate Banking

Sudhila Perera
Senior Manager - Branch Credit

Premanathan Prathaban
Senior Manager / Area Manager - North & East

Anuradha Ranaweera
Senior Manager - Central Sales

Primal Vithana
Senior Manager / Area Manager - Colombo Outer

Jagath Athukorala
Senior Manager - IT Infrastructure

Trishene De Mel
Senior Manager / Area Manager - Colombo Inner

Darshika Peiris
Senior Manager - Treasury Settlements

Senior Management

Sanjaya Silva
Senior Manager - Administration & Premises

Sithara Jayakody
Senior Manager - Credit Administration

Asanka Theadore
Senior Manager - Leasing Sales & Business Development

Sanka Thilakarathne
Senior Manager / Area Manager - Central

Duminda Hettiarachchi
Senior Manager - Branch

Kuganeswaran Sabapathy
Senior Manager - Treasury

Kamal Gunawardana
Senior Manager - Branch

Damitha Ellangasinghe
Senior Manager - Credit Audit

Kamal Bandara
Senior Manager - Branch

Nisal Fernando
Senior Manager - Branch

Driving Progress

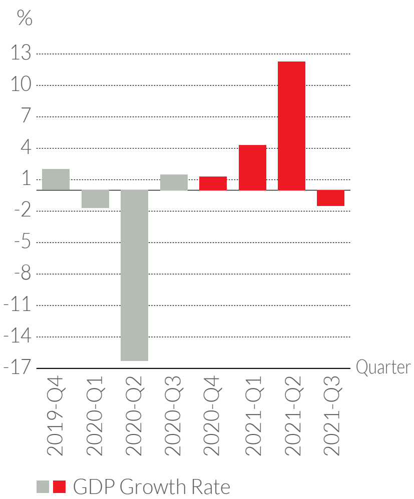
Progress is never linear, but it is always a forward advance. For over 25 years, we have purposefully planned and plotted our progress to always do better, do more and do well.

MANAGEMENT DISCUSSION AND ANALYSIS

Macro Economic Review

After a catastrophic 2020, the Sri Lankan economy showed a robust recovery during the first half of 2021, over the notable pandemic induced contraction recorded in the same period last year. The economy grew in real terms by 8%, y-o-y in the first half of 2021, compared to the contraction of 9.1%, y-o-y, recorded during the corresponding period of 2020. The unprecedented policy support from the Government and the Central Bank of Sri Lanka helped a faster recovery of activity, alongside the expeditious containment of the pandemic through the rapid rollout of the COVID-19 vaccination programme. Albeit a revival of the economic activities witnessed throughout first half, in the third quarter domestic economic activity was disrupted with the outbreak of the third wave of the COVID-19 pandemic. Due to related mitigative measures, economic growth is estimated to have contracted by 1.5%, year-on-year, during the third quarter of 2021. Accordingly, the economy is expected to have recorded a growth of around 4% in 2021.

Real GDP Growth



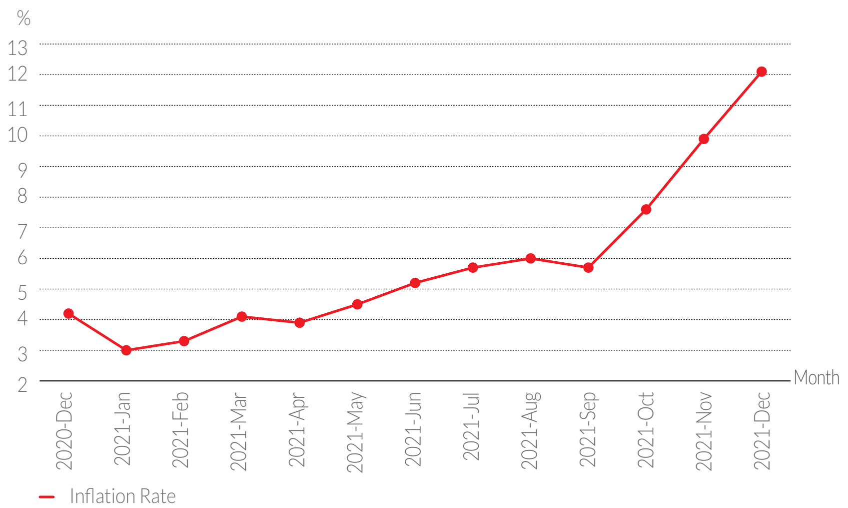
Source : Central Bank of Sri Lanka

Sector performance

All major sectors of the economy recorded an impressive growth during the first half of 2021, compared to the same period last year. Agriculture, forestry, and fishing activities reported a substantial expansion of 7.1%, y-o-y, owing to the favourable weather conditions experienced during the period. The value addition in the industry related activities grew notably by 12.1%, y-o-y, during the first half of 2021, compared to the 14.6% contraction recorded in the corresponding period of the preceding year. Construction and mining and quarrying subsectors grew by 9.9%, y-o-y, in the first half of 2021, supported by the easing of mobility restrictions. Further, manufacturing activities registered a growth of 14%, y-o-y, in the first half of 2021, supported mainly by the manufacturing of textiles, wearing apparel and leather related products, food, beverages and tobacco products, rubber and plastic products, furniture and other non-metallic mineral products subsectors.

The services activities recorded a healthy recovery with a real growth of 5.1%, y-o-y, in the first half of 2021, compared to a 5.2% contraction in the first half of 2020. The growth of the services sector was mainly driven by financial services and auxiliary financial services activities, transport of goods and passengers, including warehousing activities, wholesale and retail trade, real estate activities, including ownership of dwelling, other personal services activities, and telecommunication services. Despite a notable improvement in export performance was observed during year 2021, increase in imports was also underpinned by the availability of low cost credit, which led the trade deficit to widen to pre-pandemic levels in 2021. Meanwhile, developments in the tourism sector appear to be promising with the influx of tourists in recent months. Although inflows in the form of workers' remittances have reduced somewhat in the latter half of 2021.

Inflation: Y-o-Y % Change in CCPI



Source : Central Bank of Sri Lanka

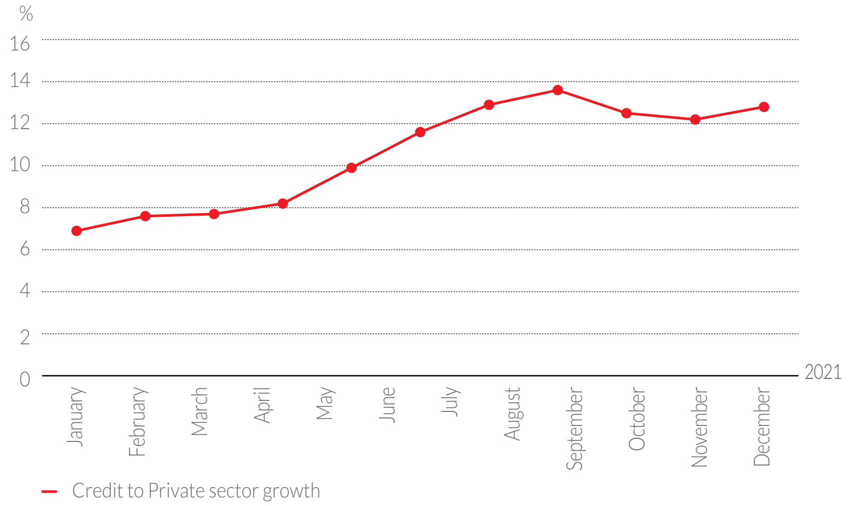
Inflation

Inflation, which remained subdued during early 2021, accelerated thereafter, driven mainly by high food inflation. Administratively determined prices of several commodities, including that of fuel, were revised upward in line with elevated global prices, and price controls on selected imported commodities were also removed. Accordingly, headline inflation accelerated during recent months and climbed to 12.1% in December 2021. Core inflation, which measures demand driven inflationary pressures, also accelerated moderately in recent months, indicating the build-up of demand pressures in the economy, with the gradual normalisation of economic activity.

Credit to Private Sector

The Central Bank of Sri Lanka continued the unprecedented monetary stimulus measures, which were deployed since early 2020 through a major part

Credit to Private Sector



Source : Central Bank of Sri Lanka

of 2021, in order to support the businesses and individuals affected by the pandemic, while facilitating the economic recovery. Low interest rates and surplus liquidity levels in the domestic money market resulted in a significant expansion in credit to the private sector. Further, the Central Bank introduced priority sector lending targets or licensed banks on lending to MSMEs in April 2021, with a view to providing further impetus to the needy and productive sectors of the economy. Accordingly, credit extended to the private sector expanded notably by 14%, y-o-y, by end December 2021, which, along with the rapid expansion in credit to the public sector, resulted accordingly, the Central Bank of Sri Lanka adopted a series of policy easing measures at the onset of the pandemic.

Interest Rates

With a view to reducing the cost of borrowing, the Central Bank reduced its key policy interest rates, while reducing specific lending rates through the imposition of caps as well as the introduction of special low interest rate loan schemes.

Meanwhile the Central Bank increased the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 50 basis points each, to 5% and 6%, respectively in August 2021 while increased the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of licensed commercial banks (LCBs) by 2% points to 4%, with effect from the reserve maintenance period commencing on 01st September 2021 in view to addressing the imbalances on the external sector of the economy and to preempt the buildup of any excessive inflationary pressures over the medium term, amidst improved growth prospects.

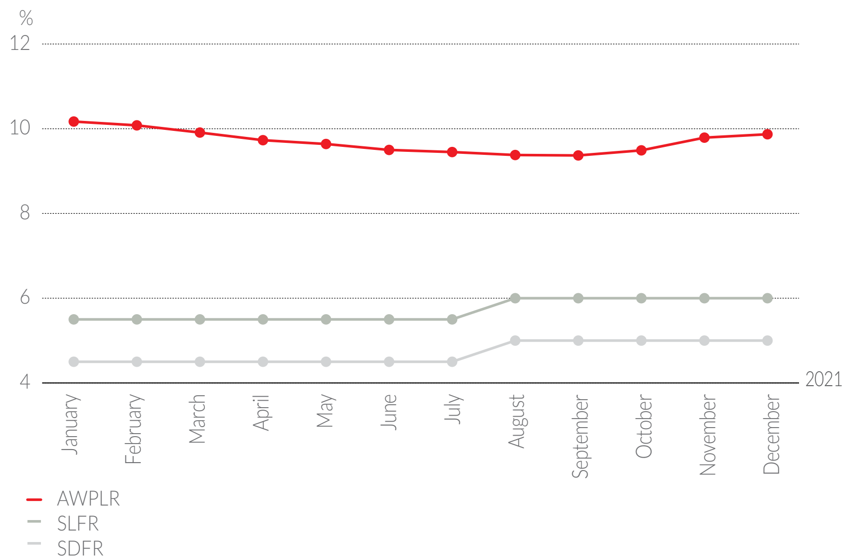
In response to the tightening of monetary policy in August 2021, most market deposit and lending rates have adjusted upwards. Further, yields on government securities witnessed a sharp upward adjustment with the removal of maximum yield rates for acceptance at primary auctions.

Credit Quality

The increasing trend in underperforming (stage 2) and non-performing loans (stage 3) remains a concern in credit risk management of the banking sector. Asset-quality pressure was evident in elevated loan-impairment charges and a rising share of stage 2 loans in gross loans. During 2021, banks substantially increased provisions for possible loan defaults, as lockdowns and other restrictions took a heavy and lingering toll on the repayment capacity of individuals and businesses.

Despite gross NPL ratio, performed better in Q4 2021, signaling that the worst may be over for the banking sector in terms of troubled loans, concerns remain regarding the true picture of asset quality once the debt moratorium still applying to a section of the loan book comes to an end.

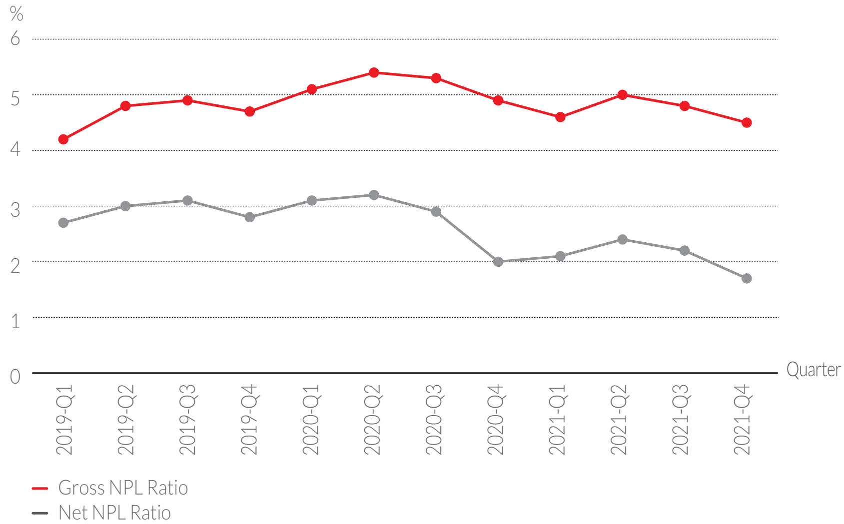
Behaviour of Policy Rates



Source : Central Bank of Sri Lanka

Macro Economic Review

Non-performing Loans of the Banking Sector



Source : Central Bank of Sri Lanka

Banking Sector

Licensed banks reported adequate provisioning, capital and liquidity buffers, thereby ensuring their soundness. The Central Bank renewed the Master Plan for Consolidation of the financial sector to overcome the longstanding issues in the sector. The consolidation process is in progress, aimed at encouraging mergers and acquisitions, and new capital infusion to the sector.

The financial infrastructure ensured a smooth functioning of the financial sector, despite heightened uncertainties due to the COVID-19 pandemic.

Impact of the Pandemic

In Sri Lanka also, the socio-economic effects of the pandemic and the associated lockdowns and mobility restrictions have been substantial. The third wave of the pandemic since April 2021 has been, by far, its largest wave. Mobility restrictions during the third wave were also selective. The recovery observed during the first half of 2021 has been on the back of the extraordinary support provided by the Central Bank to all stakeholders of the economy, via various channels since the onset of the pandemic in March 2020. This includes support to the private sector, the banking sector and the Government. The financial sector has also extended broad-based support to borrowers, including businesses and individuals, to smoothen the negative effects of COVID-19 related disruptions. At the same time, going forward, it is necessary in future credit evaluation to recognise the pandemic effects on relationships between financial institutions and their clientele.

Moratoriums

The Central Bank provided further relief to distressed businesses and individuals affected by the pandemic by implementing several debt moratorium schemes, while also supporting financial institutions through regulatory forbearance. In addition, the Central Bank continued to fulfil the currency requirements to facilitate transactions in the domestic economy and the increased precautionary demand for currency amidst pandemic-related uncertainties.

Amidst challenging global and domestic macroeconomic conditions stemming from the pandemic, the financial sector remained resilient during the period under review. Assets of the banking sector grew together with increasing profitability. However, the banking sector faced challenges due to declining foreign currency liquidity and deteriorating credit quality.

Financial Review

Overview

Year 2021 was an excellent year for Pan Asia Bank and a one that marked the achievement of remarkable financial and operational milestones. The Bank recorded the highest-ever figures in Operating Profit before VAT on Financial Services, Profit before Income Tax as well as Profit after Tax.

Pan Asia Bank reported an impressive performance for the year 2021 to report a Pre-Tax Profit of Rs. 4,034 million and a Post-Tax Profit of Rs. 3,075 million, with growth rates of 42% and 50% respectively, while demonstrating resilience amidst challenging macroeconomic conditions. The Bank's performance was characterised by strength despite the heightened uncertainty due to the impact of the COVID-19 pandemic.

The Bank sustained this remarkable performance while operating in a less conducive macro-economic environment amid deteriorating credit quality, volatility in interest rates, continuation of interest rate caps on some lending products, continuation in relief measures given to borrowers via debt moratorium and various forms of concessions and weaker performance of the overall economy - the main headwinds experienced by the entire financial system.

Against the backdrop of the COVID-19 impact on the Sri Lankan economy, the Bank's Operating Profit before VAT on Financial Services reached Rs. 4,911 million with an increase of 39% (approx.) reflecting excellence in core banking performance and the success of cost containment measures evidenced by improvement in all key profitability and efficiency matrices, which now rank amongst the best in the industry. This feat was achieved even after setting aside sizeable provision buffers for the probable deterioration in credit quality due to the evolving nature of the COVID-19 pandemic. The Bank increased its impairment provision buffers further during the year 2021, sensibly taking into consideration increased risks and uncertainties through management overlays despite all of its credit quality matrices improving due to improved credit underwriting standards. As a result, the total Impairment Charge for the year 2021 increased by 48.52% compared to the previous year.

The impact of higher impairment charges and pandemic-linked concessions already granted to borrowers resulted in dampening earnings up to a certain extent while deferment of loan payments for customers affected by the pandemic extended pressure on near term impairment charges up to a certain level. The unique, diversified business model of the Bank has continued to exhibit strength to overcome multiple challenges arising from various operational factors.

The Bank's Profit after Tax also gained to an extent due to application of lower Corporate Income Tax Rate of 24% for tax provisioning in accordance with the Inland Revenue (Amendment) Act passed in Parliament on 04th May 2021 and certified by the Hon. Speaker on 13th May 2021.

Stemming from the impressive bottom-line, Earnings per Share for the year 2021 rose to Rs. 6.95 from Rs. 4.63 in the previous financial year, while Pre-Tax Return on Assets rose to 2.17% from 1.70% reported in the previous financial year. Meanwhile, the Bank's Post-Tax Return on Assets improved to 1.65% in 2021 from 1.23% in 2020. Against the backdrop of this exceptional financial performance, the Bank managed to report steady key profitability indicators, that is, Return on Equity (ROE) of 18.03% in 2021, which now ranks amongst the best in the industry. This is a significant improvement relating to the ROE ratio of 14.36% reported during 2020.

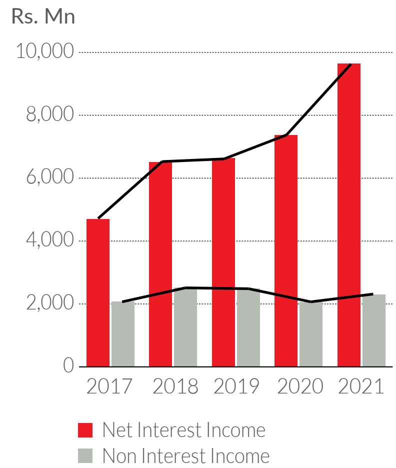
The financial performance of the Bank during the year is elaborated further as follows:

Net Interest Income

Interest income accounted for 89.08% of the Bank's gross income in 2021 despite interest income declining to Rs. 18.80 billion in 2021 from Rs. 18.82 billion recorded in 2020. The re-pricing effect of lending book responding to market conditions, as well as the continuation of regulatory directives on interest rate caps for certain lending products introduced during mid-2020, granting of new credit facilities and making of new investments at interest rates lower than in previous year hindered the interest income on loans and advances and other interest-earning assets during the year under consideration. This led to a reduction in the average interest yield by over 200 bps. Remarkable credit growth was achieved all three segments, namely, Retail, Corporate and SMEs, of over Rs. 20 billion, which offset the pressure on interest income to a greater extent.

Meanwhile, under the prevailing low interest cost regime, the Bank managed to reduce the interest expenses by 20.04% to Rs. 9.16 billion in 2021, at a pace faster than the drop-in yields on interest-earning assets. Funding the lending book mainly from short-term deposits and liabilities, increase in CASA base to 29.94% in 2021 from 25.16% in 2020 and monetary policy decisions taken by the Central Bank of Sri Lanka since emergence of the COVID-19 pandemic have resulted in the interest cost of deposits and other interest-bearing liabilities continuously declining despite the increase in liability base. Accordingly, the Bank's funding cost, which was above the industry average at the beginning of the year, improved substantially during the year 2021 and is well-anchored to compete with peer banks by offering lending products at competitive rates. Consequently, the Bank's Net Interest Income grew by a remarkable 30.83% to Rs. 9.64 billion in 2021 from Rs. 7.37 billion in 2020.

Net Interest Income Vs Non Interest Income



Financial Review

Non-Interest Income

The Bank's total Non-Interest Income consisting of Fee and Commission Income, Net Gains from Trading and Other Operating Income, increased by 11.88% in 2021 compared to 2020. The Bank's Net Fee and Commission Income recorded a growth of 39.72% with the rebound in demand for credit due to revival of economic activities during 2021 with the accelerated island-wide vaccination rollout by the government amidst the low interest rate regime, despite the adverse impact of lockdowns and waiving of certain fees and charges mandated by the industry regulator, taking into consideration the impact the lockdowns had on customers.

Meanwhile, the volatility in foreign exchange rates enabled the Bank to increase its Foreign Exchange gains substantially, as reflected in Other Operating Income increasing by 66.35% during 2021 compared to the previous year. On the other hand, the aforementioned currency volatility had a negative impact on the Bank's Net Trading Income due to mark-to-market losses on forward foreign exchange contracts and currency swap agreements which arose from high discounts with the interest rate differential and drop in trade volumes by inactive Forex markets with lack of foreign currency availability. As a result, Net Gains from Trading witnessed a dip of 80.73% in 2021 to Rs. 92.26 million from Rs. 478.88 million reported in 2020.

Credit Quality

The Bank witnessed its Regulatory Gross Non-Performing Loan (NPL) Ratio improving by 25 bps to 6.48% in 2021 from 6.73% in 2020 due to improvements in credit underwriting standards amidst challenging market conditions. The industry regulatory gross NPL Ratio also decreased from 4.74% at the end of 2020, to 4.53% by the end of 2021. Meanwhile, the Gross NPL Ratio of smaller banks remained at 5.79% by year-end 2021.

The Bank's Net Non-Performing Loan Ratio improved significantly to 0.18% in 2021 from 2.34% in 2020, supported by prudential provisioning for possible credit losses while the industry average also improved from 2.21% to 1.84% over the past twelve months with the improvements in gross NPL ratio and increased provisioning. Meanwhile the Bank's regulatory provision cover as at the year-end improved to 97.25% from 65.22% in the year before. The Bank continued its focused actions towards managing the quality of its loan book by containing NPLs amidst the weakened economic landscape.

The Bank's Impaired Loans (Stage 3) Ratio, which is the key sign of credit quality improved by 137 bps to reach 3.04% at the end of 2021 from 4.41% by the end of 2020 due to the aforementioned improved underwritings standards, concerted efforts for collection and recoveries and improved proactive prudential provisioning policies of the Bank.

The Bank's Stage 3 Impairment Provision Coverage improved by 318 bps to reach 51.23% in 2021 from 48.05% in 2020, while the Bank's Total Impairment Provision Coverage, that is, Total Loan Impairment Provision divided by Stage 3 Loans increased by approximately by 10% during the year to reach 78.39% by end of 2021 from 68.45% in 2020, due to prudent provisioning.

Impairment Charges

The Bank recognised a total impairment charge of Rs. 2,370 million in 2021 compared to Rs. 1,596 million in 2020, which is a 48.52% increase year-on-year. The increase in impairment charges was caused by the increase in provisions on collectively assessed portfolio in line with the growth in the loan book and additional impairment provisions made by the management as overlays in response to elevated risks caused by the evolving nature of the COVID-19 pandemic, challenging macroeconomic conditions at global and local levels and other stresses. Individually significant customers were carefully evaluated and appropriate provisions were made considering the severity of the pandemic impact on each customer.

The Bank reassessed the risk profiles of its customers in order to determine whether they should be moved to lifetime expected credit losses (Stage 2) from the 12 months' expected credit losses (Stage 1), under collective impairment. As a result, the Bank classified all credit facilities enjoying payment holidays for a prolonged period under Stage 2. Further, the Bank increased its model based collective impairment provisions for loans and advances and other financial assets during the year by reviewing the macroeconomic variables used for the computation of Economic Factor Adjustment, in line with the latest macroeconomic conditions.

Meanwhile, the Bank increased the weightage assigned for worst case economic scenario further during the year to reflect the uncertainties in the calculation of expected credit losses. In addition, the Bank classified the exposures of customers identified as operating in risk elevated industries/ segments under Stage 2 and Stage 3 as appropriate. As a result of all of the above adjustments, the Bank's Stage 1 and Stage 2 total provision increased by 8.30% and 45.73% respectively in 2021 from the figures reported in 2020.

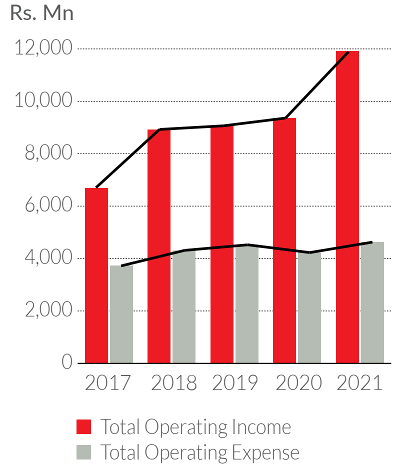
Apart from that, the management increased the impairment provisions made on foreign currency exposures to the Government of Sri Lanka, that is, Sri Lanka Development Bonds and Sri Lanka Sovereign Bonds significantly by Rs. 719 million, taking into consideration of elevation of default risk associated with the Sri Lankan sovereign as indicated by the downgrading of the credit risk rating by international credit rating agencies.

Operational Efficiency

The Bank strived for earnings maximisation through portfolio re-alignment and cost management despite sector vulnerabilities that prevailed since last year. The Bank's Cost-to-Income Ratio improved from 45.66% in 2020 to 38.85% in 2021 owing to the excellence in core banking performance which is reflected in noteworthy growth in key revenue lines and various strategies and measures taken to contain the increase in overhead costs. In fact, the

Bank managed to contain the increase in Other Operating Expenses at 3.48% in 2021 compared to the previous year. However the increased allocation to recognise staff performance through bonuses led to an increase in Personnel Expenses during the year under review despite the reduction in number of staffs.

Total Operating Income Vs Total Operating Expenses

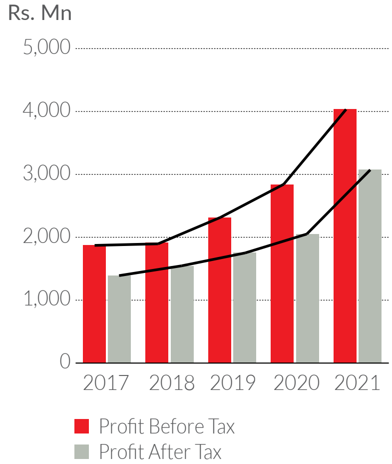


Taxation

The Bank's Profit after Tax gained to an extent due to application of lower Corporate Income Tax Rate of 24% for tax provisioning in accordance with the Inland Revenue (Amendment) Act passed in Parliament on 04th May 2021 and certified by the Hon. Speaker on 13th May 2021, which had impacted provisions to compute tax liabilities on retrospective basis from taxable periods commencing from 01st January 2020 onwards. The related adjustments positively impacted the Bank's bottom line by Rs. 90 million on net basis.

The Bank's contribution to the government income taxes and the deferred tax effect increased by 21.30% due to application of reduced corporate income tax rate of 24% and other concessions with retrospective effect, despite the higher growth in operating profits. As a result of the above, the Bank's effective income tax rate improved from 27.16% to 23.68% within 12 months while the total effective tax rate also improved to 37.38% in 2021 from 41.95% in 2020 simultaneously.

Pre-Tax Profit Vs Post-Tax Profit



Financial Position

Despite the challenges faced by the economy and the banking sector during this year induced by the pandemic, the Bank's Total Assets increased by Rs. 12.57 billion and recorded a moderate growth of 7.10%. The Total assets growth predominantly stemmed from the Customer Loans and Advances during the year amidst a challenging operating environment. In fact, the Bank reported a credit growth higher than the total asset growth as it reallocated funds parked in government securities to lending activities during the year.

Composition of Assets

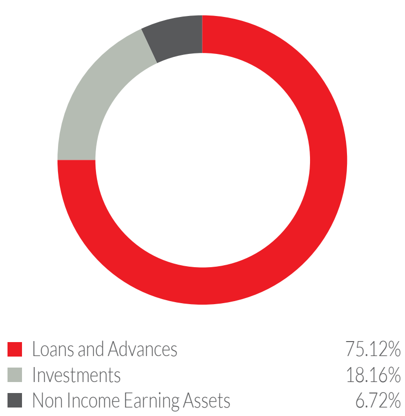
Prolonged lockdowns, further concessions offered to borrowers by the government and an overall weak macro-economic performance curtailed the growth of banks to a certain extent during 2021. Nevertheless, the Bank managed to grow its gross loan book to Rs. 150.68 billion at a growth rate of 15.24%, in contrast to the previous year's credit growth of 11.28%, due to overall excellence in Corporate, Retail and SME segments. The main lending products that drove the growth in 2021 were Pawning & Ran Loans, Loans backed by state salaries and pensions, and Loans to high-end Corporates.

During the year under review, the Bank did not lend vigorously to sectors that exhibited high stress as a measure of the Bank's prudential lending decisions. Meanwhile, the Bank enabled further payment deferrals for borrowers who applied for debt moratorium under schemes introduced due to COVID-19. As at the end of December 2021, approximately 1% of the Bank's gross loans and advance book was enjoying moratorium reliefs under CBSL and bank induced schemes.

The Bank shifted exposures in high-risk segments to ones with fairly low level of default risk strategically during the year, taking a short-term hit on the interest income in view of minimising potential credit losses. Reflecting the results of this prudential move, the Bank managed to maintain stage 3 loan ratio at a manageable level despite the pressure induced by the pandemic by bringing cash flows of customers to a standstill. The Bank's concentration on the SME sector reduced from 42.20% to 25.70% over the past 3 years, allowing opportunities to address some of the long-standing structural weaknesses and to re-design strategies to build market share.

Due to the aforesaid prudential strategic move, the Bank, as opposed to extending unsecured loans, curtailed the increase in loan related credit costs to 20.52% during the year amidst the severe economic damage caused by the pandemic. Total impairment provisions held on loans and advances book amounting to Rs. 150.68 billion rose to Rs. 8.31 billion by end of 2021.

Composition of Total Assets



Financial Review

Funding Structure

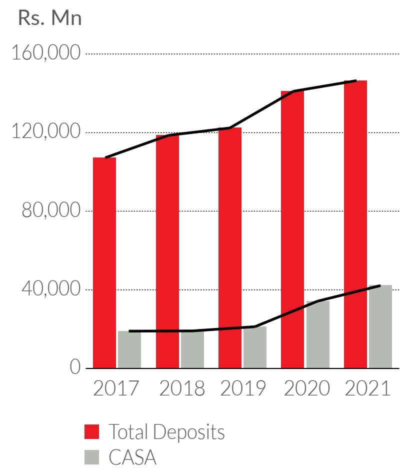
Amidst the low interest rate regime that prevailed during the year, the customer deposit base grew by Rs. 5.35 billion - recording a moderate growth of 3.80% during the year 2021. This growth was solely supported by the increase in low cost Current and Savings (CASA) deposits as the bank managed to substitute part of the high cost Rupee Time deposits with CASA during the year. Meanwhile, the Bank's CASA ratio improved by 478 bps during last past 12 months to reach 29.94% at the end of 2021 from 25.16%, which is one of the reasons for the reduction in the Bank's financial cost of funds during 2021.

These improvements ensured that the Bank maintained a strong liquidity position throughout the year with Statutory Liquid Asset (SLAR) and Liquidity Coverage Ratio (LCR) being well above regulatory minimum requirements. The Total Deposit Book of the Bank grew by 3.80% to Rs. 146.43 billion in 2021 from Rs. 141.08 billion in 2020, portraying the depositors' confidence despite the prevailing low interest rate regime for a significant part of the year. Both Retail and Corporate banking contributed to this moderate overall deposit growth amidst challenging macroeconomic conditions.

The Bank was equipped with new funding from foreign investors against the backdrop of sovereign ratings being downgraded by many international rating agencies. A historical strong relationship with Development Finance Institutions and the Bank's unwavering financial performance convinced foreign investors to invest in the Bank without hesitation despite the prevailing uncertainty. The Bank received total funds equivalent to USD 25 million in multiple currencies from various funds managed by Symbiotics and BlueOrchard, thus helping to reduce maturity tenor mismatches and off-set funding gaps that arose from repayments of several term borrowing installments during the year. This is on top of the significant growth of 44.38% witnessed in the foreign currency deposit base during the year 2021.

Meanwhile, supported by the superlative growth in the net interest income, the Bank's Net Interest Margin improved from to 5.18% during 2021 from 4.41% in 2020, which is a commendable feat amidst tough macroeconomic conditions, deterioration in industry wide credit quality due to pandemic effects and low interest rate regime that prevailed during the year.

Total Deposits Vs CASA



Shareholders' Funds

The Bank's Total Shareholders' Funds increased by 20.50% in 2021, with a growth of over Rs. 3 billion compared to the previous year. The strong growth in shareholders' funds in 2021 was mainly supported by the internally generated capital of Rs. 3.08 billion. Meanwhile, the Bank's Net Asset Value per Share as at 31st December 2021 stood at Rs. 41.92, having increased from the previous year-end figure of Rs. 34.79 amidst the record-breaking financial performance achieved. The Bank has not distributed cash dividends to shareholders during 2021 in view of building adequate capital buffers to support future growth and to meet forthcoming increased minimum capital requirement.

The Return on Equity (ROE) of the Bank for the year 2021 of 18.03% remained among the highest in the industry. In order to improve and maintain the momentum, the Bank is focused on improving the quality of credit through rigorous collection and recovery efforts, exploring ways of business development and control of costs.

Regulatory Capital

Common Equity Tier 1 (CET 1) Capital before Adjustments of the Bank as at 31st December 2021 amounted to Rs. 17.50 billion, while the Total Regulatory Capital stood at Rs. 19.85 billion by end of 2021. The Bank requires nearly Rs. 2.5 billion further capital to elevate its capital to Rs. 20 billion by end of 31st December 2022. The Bank foresees that the above target could be met through a combination of internally generated funds of the Bank and infusion of fresh capital.

The Bank's both Common Equity Tier 1 (CET 1) Capital Ratio and Tier 1 Capital Ratio at the end of 2021 improved to 13.82% from 13.24% in the year before, mainly supported by the strong internal capital generation despite the growth in risk weighted assets in 2021. Both CET 1 and Tier 1 Capital Ratios as at 31st December 2021 stood well above the regulatory minimum requirements of 7.00% and 8.50% respectively. The Bank's Total Capital Ratio at the end of 2021 stood at 15.97%, having improved from 15.74% in the previous year due to the growth in CET 1 Capital. The regulatory minimum for Total Capital Ratio as at 31st December 2021 is 12.50%. Meanwhile, the Bank's Leverage ratio improved from 6.70% in 2020 to 8.40% by end of 2021 due to significant internal profit generation during the financial year 2021.

Healthy capital ratios provide further room for business expansion while being a credit rating sensitive factor and demonstrates the Bank's capitalised level to tap internal and external funding sources.

Liquidity

Liquidity Coverage Ratios at the end of 2021 stood at 135.47% and 146.83% for Rupee and All Currency respectively at the end of December 2021, both were well above the statutory minimum requirement of 100%. The Net Stable Funding Ratio as at the end of year 2021 stood at 126.71% compared with the statutory minimum requirement of 100%.

Meanwhile, the Bank's Statutory Liquid Assets Ratios for Domestic Banking Unit and Foreign Currency Banking Unit stood at 24.18% and 58.42% respectively at the end of 2021, largely supported by excess liquidity boosting the deposit book despite the low interest rate regime that prevailed in the financial system.

Future Outlook

Global Economic Effects of COVID-19

The COVID-19 viral pandemic is an unprecedented global phenomenon that is also a highly personal experience with wide-ranging effects. The pandemic has disrupted lives across all countries and communities and negatively affected global economic growth in 2021 beyond anything experienced in nearly a century. The increasing number of lockdowns, monetary policy decisions and international travel restrictions severely affected the level of economic activities and the closing, opening, lowest and highest stock price of major stock market indices.

In contrast, the imposed restriction on internal movement and higher fiscal policy spending had a positive impact on the level of economic activities, although the increasing number of confirmed coronavirus cases did not have a significant effect on the level of economic activities. In response, central banks in many countries slashed interest rates, which should, in theory, make borrowing cheaper and encourage spending to boost the economy.

Estimates indicate that the virus reduced global economic growth in 2020 to an annualised rate of around -3.2%, with a recovery of 5.9% projected for 2021. Global trade is estimated to have fallen by 5.3% in 2020 but is projected to grow by 8% in 2021. The Asian Development Bank forecasts a 7.1% growth for Developing Asia in 2021 and 5.4% in 2022 driven by a broad recovery in exports.

As a whole, developed economies have made strides in vaccinating growing shares of their populations, raising prospects of a sustained economic recovery in late 2021 and into 2022 and, in turn, a recovery in the broader global economy. However, new variants of the COVID-19 virus and a surge in diagnosed cases in large developing economies and resistance to vaccinations among some populations in developed economies raise questions about the speed and strength of an economic recovery over the near term.

The Sri Lankan Economy

The Sri Lankan economy witnessed a strong recovery during year 2021, supported by fiscal and monetary stimulus measures. The removal of COVID-19 related lockdown measures in October 2021 and the successful nationwide COVID-19 vaccine rollout would help activity in the period ahead. While CBSL projects a GDP growth to be around 5% in 2021, the ongoing rise in COVID-19 infections both globally and domestically could impact this expectation to some extent.

The external sector performance which was dampened during latter part of year 2021 due to import outpaced exports during year 2021 is expected to rebound in the period ahead with the continuous rise in worker migration and efforts taken to facilitate remittance flows through formal channels. The tourism sector has displayed strong signs of revival with the easing of restrictions and is expected to normalise and meet the envisaged income target. The Ministry of Tourism aims to attract 2.3 million tourists for the period ahead with key focus on the Indian, Middle Eastern and Russian markets whilst hoping that the traditional markets in Europe will rebound in the latter part of 2022.

Measures have been taken by the Government and the CBSL to attract fresh forex inflows, as well as the anticipated inflows to the private sector, including the financial sector, are expected to augment gross official reserves, thereby strengthening the external sector in the period ahead. Projections of the Ministry of Finance show that the average annual foreign debt service payments of the government amounted at USD 4,432 billion between 2021 and 2025.

Central government debt as a percentage of GDP is expected to reduce to 101.7% in 2022, from 102.8% in 2021. In the national budget 2022, 37% of the recurrent expenditure was allocated to interest payments and this amount is equal to 6.1% of the GDP of the country in 2022.

Meanwhile, Fitch Ratings downgraded Sri Lanka's international sovereign rating to CC (Very high levels of credit risk) from CCC (Substantial credit risk) citing doubts of the government's ability to meet its external debt obligations in 2022 and 2023 in the absence of new external financing sources might limit access to external funding sources. Debt sustainability issues, exacerbated by unfavorable economic conditions stemming from the COVID–19 pandemic, contributed towards the depreciation of the LKR, which declined 8.9% against the USD in 2021. Depreciation against Euro, Australian Dollar, Sterling Pound and Indian Rupee was also witnessed. Despite the CBSL maintaining a stable exchange rate at around Rs.200- 203 levels against the US dollar during the past three months, in response to the uncertainty in the domestic foreign currency market, exchange rates are expected to peak in near future and stabilise thereon.

In response to the tight monetary and liquidity conditions, most market lending rates have adjusted upwards and expected to further soar due to looming rupee liquidity in the market which has almost reached a negative position.

Credit extended to the private sector, which expanded notably underpinned by eased monetary conditions, slowed somewhat in latter part of year 2021. Credit to the private sector from licensed commercial banks could stay at the desired direction during 2021 and potentially transcending into 2022 despite some easing in the next couple of months as the private sector's thirst for credit is unlikely to wane much from monetary tightening. The accelerated credit growth situation is likely to slow down over the next 2-3 months with the negative liquidity situation in the country.

Increased Taxes and Levies

The Government Budget was presented in Parliament in November 2021 with the aim of reducing the budget deficit from 11.1% of the GDP to 8.8% in 2022. The Government expects a 50% increase in tax revenue and this projected growth

Future Outlook

is expected mainly from new taxes, namely the one-off Surcharge tax, Social Security Contribution and increased VAT on financial services. These new and increased taxes and levies are expected to create a significant adverse impact on the Bank's profitability and profit retention.

Rising Commodity Prices

Inflation accelerated recently mainly due to supply side disturbances and the surge in commodity prices internationally. Headline inflation, as measured by the year-on-year (YoY) change in the Colombo Consumer Price Index increased to 12.1% in December 2021 from 4.2% reported in year ago. A further acceleration of headline inflation is possible in the immediate future, due to supply disruptions and a surge in commodity prices.

By end 2022, as cited in the CBSL 06 Month Road Map, CBSL envisages normalcy in economic activity with the COVID-19 pandemic being under control, resulting in a real GDP growth of around 6%; for inflation to stabilise in the middle of the desired 4-6% target range; interest rates to stabilise further; and improved macroeconomic fundamentals, resulting in improved sovereign ratings.

Banking Sector Performance

As per Fitch Ratings, the banking industry is likely to face continued asset-quality pressure in 2022 as rising macroeconomic stresses stemming from the sovereign credit profile pose a threat to borrowers' repayment capacity, alongside the conclusion of most relief measures in 2021. Fitch expects Sri Lanka's economic performance to weaken in 2022, forecasting growth to slow to 2%, although downside risks to forecasts remain. Stage 3 loans are likely to increase in 2022 but a sharp rise in the ratio may not be apparent due to robust loan growth. Credit costs are likely to remain high, although below 2021. Sri Lankan banks face added asset-quality pressure from their government securities holdings which has already led to soar in credit cost during year 2021 is expected to further increase due to weaker sovereign credit profile. Excessive tax expenses and increased cost pressures stem from the current inflationary effect, may dampen the banking sector earnings while leaving cost to income ratio at undesirable level.

Digital Transformation

In the backdrop of the current COVID-19 environment, customers have reduced their branch interactions and moved to alternate channels. The pandemic has clearly accelerated the shift in consumer preferences to digital banking channels. The future of banking lies in "bionic banking" i.e., achieving a balance between digitisation and human interactions. Sri Lanka's banking sector is on the right path with customers showing an intent to embrace digitisation. Banks now need to adopt a 'customer-first' approach by re-imagining customer journeys and further fulfilling the unmet needs of the customer with innovative products and features, at par with developed nations

Business Review

Overview of Pan Asia Bank

Demonstrating resilience and visionary financial management amidst challenges induced by the global pandemic and a weakened economic landscape, Pan Asia Bank delivered a historic performance in FY2021, recording excellence in core banking performance and improvement in all key profitability matrices, some of which rank among the industry bests.

Achieving robust financial results year on year indicates the growth trajectory of the Bank. Total Assets base stood at Rs. 189.51 billion as at 31st December 2021 after posting a growth of 7% during the year supported by the expansion in the loan book. The Bank's breakout performance was ably supported by Retail, SME and Corporate segments. The main lending products that drove the growth in 2021 were Pawning, Ran Loans, State sector salary and pension backed loans and loans to large corporates. Despite the overall volatility in the economy, Pan Asia Bank prevailed as one of the most profitable banks and attracted greater attention of the industry.

Lending

Pan Asia Bank's lending book grew strongly in the year under review. The robust growth from all segments, including Corporate, SME and Retail demonstrates that despite COVID-19 prevailing in 2021, the economy was showing positive indications of opening up. Moreover, most of the Bank's loans were disbursed for economic purposes, thus reflecting the Bank's contribution to the national economy. However, the Bank remained cautious in its lending activities considering that the overall industry is yet to overcome the challenges caused by the pandemic. The Bank is closely monitoring the real impact as it unfolds. Pan Asia Bank also granted moratoriums to the affected industries and was mindful of assisting such sectors to have a meaningful impact. As at year-end 2021, loan growth amounted to Rs. 20 billion. The major contribution came from Corporate loans, Pawning, Swabhimana and Sammana.

Retail Banking

At the time of the spread of the global pandemic in March 2020, little was known about the impact it would have, but a year later, Pan Asia Bank has navigated through challenges by prioritising customer segments and catering to their financial needs. The Bank's approach to retail lending was by mainly concentrated on lending products against confirmed monthly payments under Sammana (state sector pensioners), KIA/MIA/DIA category (dependants of the tri-forces) and Swabhimana (employees of states sector institutions).

Sammana & Ranaviru

The Sammana product is a specialised banking services package tailor-made to fulfil the needs of the Central Bank of Sri Lanka (CBSL) and government pensioners. Under this package, the Sammana loan is the most popular feature, with Pan Asia Bank being the pioneer of any such government pensioner loan product in the country, having initiated the product as far back as 2013 with the intention of bringing back pensioners' skills and contribution to the economy by providing them with financial support. Another purpose of this product is to uplift the living standards of pensioners, offering them an opportunity to create additional income sources. In an era where retirees were largely being considered as a liability by the society and overlooked by the financial sector, Pan Asia Bank came forward to offer the Sammana loan scheme, especially for economically viable purposes.

The Sammana loan scheme enables a pensioner to divert pensions to Pan Asia Bank and obtain a loan of up to Rs.5 million without need for guarantors. This product continued to perform well during the year under review. The Sammana and Ranaviru products grew by Rs. 2 billion within the first three months of 2021 alone. However, due to the COVID-19 outbreak, sustaining the growth levels proved a challenge. One of the main hurdles faced by senior citizens was physically accessing the branches. Accordingly, staff introduced a process to visit the customer's doorstep in order to overcome the obstacle and meet their financial requirements.

The Bank has introduced a new product - DIA over 55 - to grant loans for the tri forces. DIA (Disabled in Action) soldiers are eligible for a lifetime salary as per the government's directions. Accordingly, Pan Asia Bank expects to uplift the living standards of these disabled soldiers, offering them an opportunity to create additional income sources.

In yet another milestone, Pan Asia Bank was instrumental in the Life Certificate Update Process for the first time in Sri Lanka. Accordingly, over 160,000 pensioners who have retired from their jobs with effect from 01st January 2016 were eligible to update their Life Certificate via any Pan Asia Bank branch for the first time in Sri Lanka.

Moreover, the Bank's service levels were enhanced by decentralising the loan disbursement process. Accordingly, every branch grants a loan to customers within 20 minutes. The Bank also expects to introduce a new service for disabled/aged pension customers at their doorstep, to hand over their life certificates via the fingerprint method for the first time in Sri Lanka. In recognition of Sammana's pioneering value propositions, the product was awarded the 'Best Banking Product Sri Lanka 2021' by the World Economic Magazine Awards, reflecting its unique status.

Pawning and Ran Loans

The year under review marked the first full financial year of operations for the revised pawning product which resulted in the expansion of the portfolio from Rs. 5.25 billion in 2020 to Rs. 13 billion in 2021, making it the highest-ever pawning portfolio in the history of the Bank supported by a 360-degree marketing campaign. Considering the potential in this business segment, the Bank was keen to develop a product to capture a greater share of pawning advances with a view of achieving portfolio growth. The product was redesigned after conducting market research which showed that despite the interest cap introduced by CBSL, finance companies and pawn brokers

Business Review

continued to charge higher interest rates than banking institutions on pawning advances.

Accordingly, Pan Asia Bank identified an emerging trend among customers to transfer their pawning contracts from finance companies and pawn brokers to licensed commercial banks. Considering the COVID-19 outbreak, CBSL reduced the Pawning interest rate to 10% p.a. which was a challenging interest rate for the banking industry. However, despite pandemic-induced challenges, Pan Asia Bank successfully increased the number of business (volume-wise) by implementing staff motivation programmes and by leveraging on social media to promote pawning products.

Although a slow growth trend was observed until 3oth September 2021 due to yet another wave of the pandemic and travel restrictions, commercial activity picked up after September and the Bank achieved anticipated growth in its pawning portfolio. The Bank leveraged on social media and digital platforms to communicate the benefits of the new pawning product with customers. Service levels will be further enhanced through the digital banking platform. The pawning business unit showed an upsurge during the year, spurred in a major way by the 'Atthama' corporate image building and product marketing campaign, which attracted new customers. Considering the growth recorded by pawning in 2021, it was evident that the strategic reengineering of the pawning product delivered the desired results.

Leasing

The Bank's leasing business faced a slew of hurdles caused by the pandemic coupled with the dollar crisis faced in the country. The temporary closure of the Department of Registration of Motor Vehicles, slowed down the motor vehicle registration which further restricted business expansion. Amidst these crisis, banks were directed to extend moratoriums to SMEs, the segment most impacted by the pandemic. Notwithstanding these obstacles, the leasing arm of the Bank recorded growth against the industry trend of negative growth. Leasing book grew by approximately by Rs. 1 billion 31st December 2021.

The Bank continued to extend its Business Plus product for the business community as a mode of refinance. The nature of the product is a short-term facility to accommodate working capital requirements.

Budget Plus was another product that was tailor-made to cater to different market requirements that suited the unmet needs in the market and helped drive leasing as it eased stringent payment periods for customers. Pan Asia Bank managed to grow its leasing portfolio mainly because of its exclusivity, loyal customers and superior customer care.

Swabhimana Personal Loan Product

The Swabhimana product is a specialised banking services package tailor-made to fulfil the needs of employees in government and semi government institutions including Sri Lanka Ports Authority, Sri Lanka Petroleum Corporation, Sri Lanka Customs, Sri Lanka Telecom PLC, National Water Supply and Drainage Board, Ceylon Electricity Board, Colombo Dockyard and South Asia Gateway Terminals (Pvt) Ltd.

Swabhimana has grown in popularity as it is the only such pioneering personal loan product aimed to benefit government employees in the country. The product was initiated as far back as in 2016 with the intention of enhancing the Bank's lending and contribution to the economy by providing them with financial support. Another purpose of this product is to uplift the living standards of customers by offering them an opportunity to create additional sources of income.

The Swabhimana loan scheme enables borrowers to obtain a loan of up to Rs. 6 million for a maximum tenure of 12 years. This product continued to perform well during the year under review, growing by Rs. 400 million within the first three months of 2021 alone. The growth momentum was sustained through the pandemic despite the challenge faced by borrowers to physically access the branches.

Credit Cards

2021 was a subdued year for the credit card segment due to pandemic-induced challenges and a low-interest regime, which impacted the portfolio. Nevertheless, Pan Asia credit cards continued to have Usage Drives and Customer Engagement programmes with partners, issuers and other vendors to sustain the portfolio at reasonable levels. The Bank introduced an array of on boarding and continuation benefits to its customers further strengthening its value proposition.

Further, during the period under review, many manual operations activities in the credit card process were automated, with staff repurposed for more value-adding activities. Going ahead, the plan is to offer the credit card base a feature-packed offering with many benefits such as vouchers, discounts and cash back facilities at different partner locations. In the months going ahead, Pan Asia credit cards will also offer digital onboarding and virtual cards rather than plastic to embrace sustainable solutions and to eliminate paper and plastic. The current credit card issuing system is also being upgraded. The ambitious plan to transform Pan Asia credit cards into one of the most preferred in the country will be achieved through unique selling propositions such as corporate and travel credit cards.

SMEs

As for the SME sector, the Bank exercised caution to ensure asset-backed lending, since SMEs in many sectors were badly impacted by the economic slowdown. The Bank's strategy at all times was to ensure high quality portfolios. In the meantime, the Bank assisted affected businesses by granting moratoriums and restructuring facilities to streamline their cash flow. Considering that SMEs should be assisted in every way to recommence their businesses, Pan Asia Bank continued with SME webinars led by reputed trainers – as a motivation tool for affected customers.

Green lending initiatives continued through the year, the largest being the Sprinkle irrigation project targeting sugarcane farmers of Monaragala, a joint initiative with the Lanka Sugar Company Pelwatta.

The Bank also targeted, canvassed and funded a large number of exporters during the year in order to assist the foreign currency earnings of the country which has become a priority for the economy.

Corporate Banking

Despite the negative fall-out of the pandemic, the Corporate Banking department of Pan Asia Bank delivered a stellar performance in 2021 - both in advances and deposits, recording year on year growth of 67% and 42% respectively. One of the main strategies that contributed to the superior performance of the business unit was the implementation of a range of operational measurers during the challenging period under review.

The business unit ensured resource optimisation by forming separate teams and setting up protocols for working from home effectively, to ensure there was no disruption in the Bank's business drive or client services.

Devising a strategy to better manage customer relationships, customers were segregated through data analytics so as to identify and provide them with exclusive banking requirements while delivering a more personalised service. Despite the disruption in normal business activity through the year, the development of skills through continuous training and development programmes continued for the corporate banking staff.

During the year, a new corporate digital internet banking platform was launched, which was enhanced with a new range of services to fulfill client needs. This platform has helped increase the proportion of digital usage by clients.

Further, customer relationships were prioritised by investing in forging deeper and more personalised bonds with customers. The business unit further succeeded in driving sustainable growth of the Bank's corporate customer base by operating at the highest ethical standards to be seen as a trusted partner and by providing smart business solutions to meet client needs.

As an industry pioneer and a Bank with many firsts to its credit, the Corporate Banking unit continued to adapt to industry best practices for creating long-term value for shareholders and other stakeholders.

Overall, the business unit ensured that it was able to capitalise on favourable market conditions in the corporate sector in a timely manner. The strong performance of Pan Asia Bank's Corporate Banking arm amidst a challenging year bodes well for even more strident growth as the threat of the pandemic eases in 2022.

Trade Finance

Reflecting the industry trend, the volume of trade routed through the Bank was severely impacted due to the government's initiative to curtail non-essential imports in addition to the lockdown situation in the country, preventing clients from continuing trading business smoothly, thereby affecting the import business to a greater extent. During the period under consideration, the government relaxed some of the restrictions, however, the slowdown in trade activities were due to the shortage of dollars in the market and the government's request for banks to settle their import bills from inward remittances received by the bank. Pan Asia Bank remained focused on onboarding more export customers to the portfolio and thereby increased the accommodation of import transactions and fee income of the bank. The Bank managed to increase its market share of export business and received substantial export proceeds during the latter part of the year under review.

Deposits

As a trusted and reliable brand, Pan Asia Bank continued to be the preferred choice for customers to entrust their deposits with. In order to infuse further value to customers, the Bank revamped existing products to add more value to meet customer requirements. The deposit base grew from Rs. 141.08 billion in 2020 to Rs. 146.43 billion in 2021. The growth of deposits was affected late in the year due to few large deposits moving out from one of the flagship branches. However, the other branches had a sizeable deposit growth during the year. Pan Asia Bank is also expanding its customer base as part of a new strategy by setting ambitious targets for branches. Customer acquisition successfully grew as new customers were on-boarded. The cost of funds declined through out the year while CASA ratios showed a marked improvement.

One of the main challenges during the year was travel restrictions - wherein customers could not access branches with ease. In response, the Bank stepped up its customer outreach through telesales and call centre operations to promote products while encouraging customers to leverage on digital channels to connect with the Bank and conduct all their financial transactions.

The launch of new products in the pipeline to be launched during the year was delayed until such time that the economic climate in the country improves and promotional activities can be conducted as normal in early 2022.

Treasury

The PABC Treasury Unit plays a vital role in managing the Bank's market and liquidity risk aspects. This important unit is powered by a skilled/dynamic team, managing a multi-faceted product portfolio. Market conditions were volatile throughout 2021 due to conditions which curtailed economic growth, resulting in sharp depreciation of the rupee and a widening trade deficit. This, in turn, created shortages of required foreign exchange to meet import demands. In response, CBSL was compelled to introduce exchange rate band for USD between 200 and 203. The depreciation together with the scarcity of foreign exchange experienced during most part of the year posed a challenging backdrop, but the Treasury team utilised all available tools at its disposal to generate the required inflows of foreign exchange volumes to meet the expectations of its loyal export and import clients.

Business Review

The circumstances that led to financial crisis during the year 2007 and the events that followed thereafter underscored the fact that funding and liquidity are paramount importance to the financial service industry. As a result, Basel III included provisions to strengthen the funding and liquidity risk management of Banks. Accordingly, in order to promote resilience in banks' short term and long term liquidity risk profiles, Liquidity Coverage ratio (LCR) was introduced in 2015 and the Net Stable Funding Ratio (NSFR) was introduced in 2019. Additionally, banks needs to maintain the conventional Liquid Assets Ratio and through these measures, controls are bought in to prevent banks from relying excessively on short-term wholesale funding to support fund long assets.

During the year 2021, the Bank accorded much importance to maintain sustainable level of funding and liquidity by sourcing long term funding lines from reputable European-based Development Financial Institutions (DFIs) despite the challenging times that prevailed worldwide. Through these initiatives, the Bank maintained fairly high liquidity ratios, well above the regulatory mandated levels throughout the year. The Bank has not compromised on liquidity in its drive to generate returns to investors and this tenet has greatly contributed towards public trust in the Bank. The low cost foreign currency borrowing was cheaper compared to the cost of wholesale deposits due to the prevalent swap costs.

The Bank continued to gain Retail deposits through its branch network and due to the focused drive to grow CASA accounts, the Bank managed to grow its CASA ratio to very healthy levels by industry standards during the year under review.

All these efforts led The Truly Sri Lankan Bank, Pan Asia Bank, to secure many global and local awards, such as the prestigious 'Best Bank for Treasury Activities Sri Lanka 2021-Treasury' award by the Global Banking & Finance Awards 2021. This win also marks a moment of pride for Sri Lanka's banking industry as Pan Asia Bank is the first local bank to be recognised and rewarded for its superior treasury management skills. The Treasury function also won the 'Best Treasury and Cash Management Bank Sri Lanka 2021' by International Business Magazine Awards; and 'Best Bank in Treasury Management Sri Lanka 2021' by the World Business Outlook Awards.

Customer Service

Relationship building was prioritised during the year as customer service teams continued to connect with customers through telesales and the call centre, responding promptly to customer queries and offering quick solutions. The call centre was manned round the clock to ensure no customer was left unattended. Since the Bank has a substantial senior citizen base, special care was taken to ensure that this customer segment was given superior care.

The Bank leveraged on social media and digital channels to drive business and onboard customers to its online banking platform. Customers were able to activate online banking without visiting branches, supported by adequate security measures. Greater attention was paid to relationship banking, while online banking and ATM cards were promoted to enhance customer convenience. Facilities such as self-registration of online banking with requisite security measures heightened customer enjoyment of Pan Asia Bank's online offerings. Social media and mobile platforms were utilised to reach a wider section of customers as people turned to social media channels to reach audiences.

Every opportunity was utilised to train staff through online training sessions to keep them motivated and upto-date, so that they in turn could service customers with professionalism. Customer service engagement and knowledge enhancement programmes were also conducted.

Overall, the Bank expertly managed resource allocation and realignment of capacity and potential of staff to face pandemic-induced challenges. Pan Asia Bank is looking ahead with optimism, with the ambition to roll out more customer-centric products currently in the pipeline.

Marketing Strategy

Pan Asia Bank's dynamic brand-building journey continued in 2021, leveraging the Bank's new positioning as the 'Truly Sri Lankan Bank' which was launched in 2020. In the year under review, the Pan Asia brand went through a transformational journey with the new positioning firmly establishing its identity as the Truly Sri Lankan brand in the banking industry, a unique and distinct identity that is instantly recognisable and inspires trust.

Despite the challenging period prevailing in the country through 2021, overall marketing and brand efforts focused on the single purpose of establishing the vibrant new brand positioning, with the marketing team and the rest of the organisation working passionately to implement the new branding.

Pan Asia Bank's Brand Vision and Brand Framework provided the necessary guidance in terms of protecting the brand and building its value further which is evident in the Bank's Brand Finance rankings and increase in brand value during this period. This was propelled further by the new brand performance monitoring dashboard introduced in the period which enables the marketing team and the management to gain indications of the direction of the brand.

Greater equity was infused into the brand during the first half of the year with the launch of the Pan Asia 'Ran Aththama' campaign, which is designed to drive the importance of Sri Lankan values, coupled with one of the key product propositions. This campaign received kudos from all quarters.

During the year under review, branding and marketing initiatives were extended to cultural/national festivals and key milestones. This helped the brand to connect with the many different segments of the society in line with the newly-launched brand positioning. The brand was able to revamp most of the product propositions in terms of the core offering and communications to cater to a wide range of customers with different value proposition. This enabled the brand to come closer to the heart of customers and non-customers.

Pan Asia Bank's brand commitment extended to sustainability projects to uplift society and the environment. Some of the main projects included reforestation, irrigation system rehabilitation, water preservation and management, biodiversity restoration and more, which have been detailed in the CSR report on page 56.

A sustained focus on digital communications enabled us to make the brand resilient, which led to having a very strong presence and engagement levels in our digital and social platforms. Many international and local accolades received during this period are yet more testaments of acceptance for the Bank by institutions and the customer base spread across the country.

- Global Banking & Finance Awards Best Green Bank in Sri Lanka 2021& Best Bank for Treasury Activities Sri Lanka 2021

- International Business Magazine Awards - Fastest Growing Commercial Bank Sri Lanka 2021 & Best Treasury and Cash Management Bank Sri Lanka 2021

- World Business Outlook Awards - Best Bank in Treasury Management Sri Lanka 2021 & Most Sustainable Green Bank Sri Lanka 2021

- World Economic Magazine Awards - Fastest Growing Commercial Bank Sri Lanka 2021, Most Sustainable Green Bank Sri Lanka 2021, Best Banking Product Sri Lanka 2021 (Sammana) & Most Improved Bank in Profitability Management Sri Lanka 2021

- LMD Most Awarded 2021 - Rated as one of the most awarded entities in Sri Lanka.

The Bank is committed to grow the brand from strength to strength by leveraging the 'Truly Sri Lankan Bank' brand positioning while being part of the growth trajectory to be the best bank in Sri Lanka.

Information Technology

The year 2021 was highly eventful for the Information Technology Department as it successfully covered the most critical aspects of Infrastructure and Applications required for optimal functioning against the backdrop of the pandemic, recording several firsts in the banking industry.

During the year under review, Pan Asia Bank became the First Bank to integrate with Lanka Clear, the Common Interface of Lanka Pay Payment platform through Internet Banking - enabling customers to carry out government payments digitally. Existing customers were also empowered to open savings accounts through Internet Banking and to check their credit card balance through a missed call facility without having to reach the contact centre.

The implementation of the new leasing system during the period under consideration enhanced internal processes and the overall customer experience. In addition, the following initiatives were introduced: continuous risk and security assessments, implementation of next generation firewall and virus guard, access monitoring solutions, tier standard data centre and upgrading of server, storage and network infrastructure to strengthen the bank's core systems and architecture against the growing risk of cyber-attacks, thus promoting a seamless and secure banking operation.

Work from Home (WFH) facility was sustained and strengthened in 2021 with enhanced security to provide a smooth customer service and ensure uninterrupted Bank operations. There are several ongoing Strategic, Business, Regulatory and Governance projects which will enable greater customer reach. We are also working on digitising and implementing lean internal processes to provide best-in-class Digital and in Person Customer experiences not only to Pan Asia Bank customers - but also to anyone interacting with us digitally and physically.

The initiative taken by the IT team was recognised with a Global Award at the Finacle Innovation awards 2021 for Process Innovation (Runners up) for the 'Customer Centric Delinquency Management Solution with Predictive Analysis' solution. Moreover, in recognition of the commitment towards maintaining standards, it was awarded with ISO27001 certification for the third consecutive year.

Key Product Offerings

RISING FD

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

CHAMPION SAVER

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

CHILDREN SAVINGS ACCOUNTS

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

TRADE SERVICES

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

Key Product Offerings

HARITHA SHAKTHI

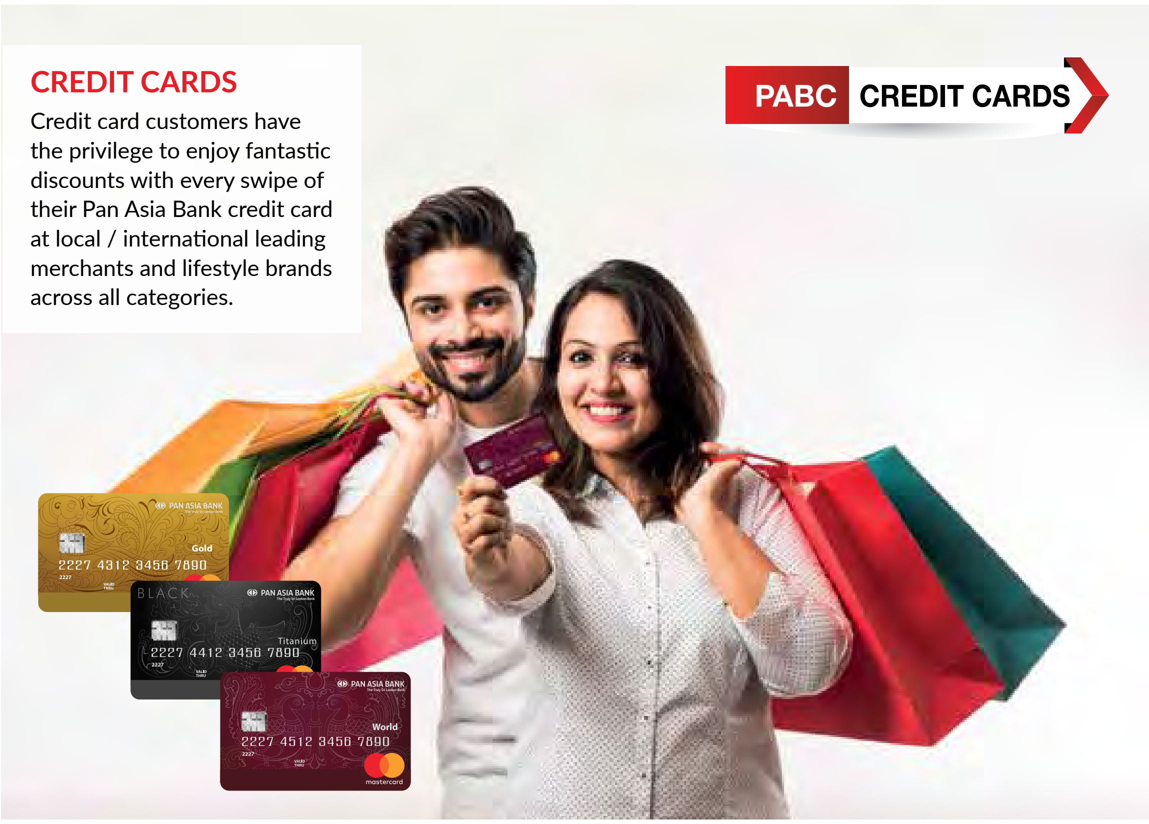
Sustainability Development Loan scheme is designed to help you and the nation to go green while offering you customised loans schemes to finance your sustainable development projects.

SWABHIMANA

Swabhimana fulfils the personal loan needs of government and semi government institution employees- borrowers can obtain a loan of up to Rs. 6 million with a repayment up to 12 years

SAMMANA

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



CREDIT CARDS

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

Key Product Offerings

RAN ATHTHAMA

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

LEASING

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

SME CREDIT

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

REMITTANCES

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

Branch Network

1. JAFFNA DISTRICT
- Chunnakam
- Jaffna
- Nelliady

2. KILINOCHCHI DISTRICT
- Kilinochchi

3. VAVUNIYA DISTRICT
- Vavuniya

4. TRINCOMALEE DISTRICT
- Trincomalee

5. ANURADHAPURA DISTRICT
- Anuradhapura
- Kekirawa

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

7. KURUNEGALA DISTRICT
- Kuliyapitiya
- Kurunegala

8. MATALE DISTRICT
- Dambulla
- Galewela
- Matale

9. POLONNARUWA DISTRICT
- Kaduruwela

10. BATTICALOA DISTRICT
- Arayampathy
- Batticaloa

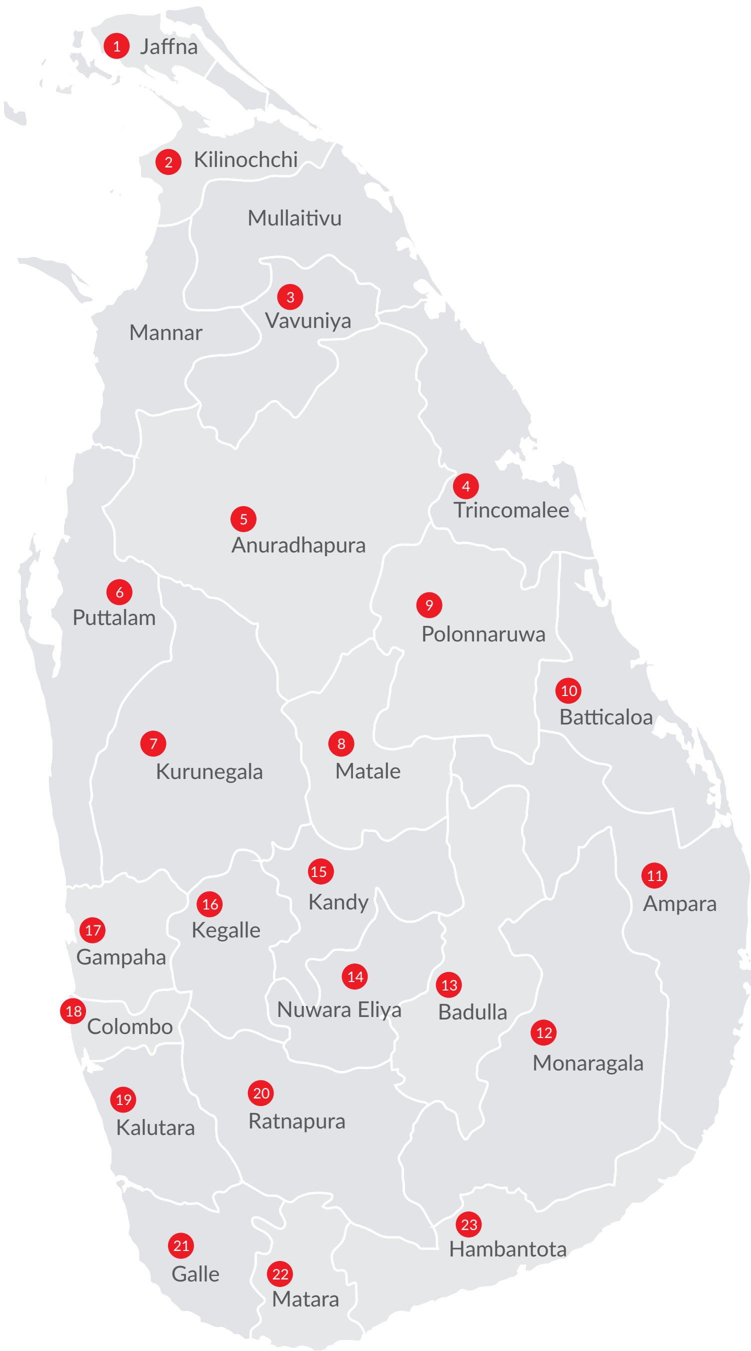
11. AMPARA DISTRICT
- Akkaraipattu
- Kalmunai

12. MONARAGALA DISTRICT
- Monaragala

13. BADULLA DISTRICT
- Badulla
- Bandarawela

14. NUWARA ELIYA DISTRICT
- Hatton

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



16. KEGALLE DISTRICT
- Kegalle
- Mawanella
- Warakapola

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

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

19. KALUTARA DISTRICT
- Horana
- Kalutara
- Panadura

20. RATNAPURA DISTRICT
- Balangoda
- Embilipitiya
- Ratnapura

21. GALLE DISTRICT
- Ambalangoda
- Galle
- Hikkaduwa

22. MATARA DISTRICT
- Akuressa
- Matara
- Weligama

23. HAMBANTOTA DISTRICT
- Ambalantota
- Tangalle

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Akkaraipattu	060	Kaiyoom Complex Building, No 280, Main Street, Akkaraipattu	Ampara	067-4924071	067-2279576	Weekdays : 9.00 AM to 3.00 PM
Akuressa	072	No 54, Matara Road, Akuressa	Matara	041-4935855	041-2284677	Weekdays : 9.00 AM to 3.00 PM
Ambalangoda	041	No 103, Galle Road, Ambalangoda	Galle	091-4943166	091-2258064	Weekdays : 9.00 AM to 3.00 PM
Ambalantota	053	No 155/1, Tissa Road, Ambalantota	Hambantota	047-4931850	047-2225056	Weekdays : 9.00 AM to 3.00 PM
Anuradhapura	032	No 49, Main Street, Anuradhapura	Anuradhapura	025-4976777	025-2234763	Weekdays : 9.00 AM to 3.00 PM
Arayampathy	057	No. 73b,73b 1/1,73C and 73C 1/1, Main street, Arayampathy East	Batticaloa	065-4926901	065-2248468	Weekdays : 9.00 AM to 3.00 PM
Badulla	045	No 22A, Bank Road (Lower Kings Street), Badulla	Badulla	055-4976777	055-2225771	Weekdays : 9.00 AM to 3.00 PM
Balangoda	062	No 84, Barnes Ratwatte Mawatha, Balangoda	Ratnapura	045-4928310	045-2289081	Weekdays : 9.00 AM to 3.00 PM
Bambalapitiya	009	No. 343, Galle Road, Colombo 04	Colombo	011-4374055	011-2506825	Weekdays : 9.00 AM to 3.00 PM
Bandarawela	048	No 340/1A, Badulla Road, Bandarawela	Badulla	057-4976777	057-2233554	Weekdays : 9.00 AM to 3.00 PM
Battaramulla	063	No 123C, Pannipitiya Road, Battaramulla	Colombo	011-4343260	011-2885622	Weekdays : 9.00 AM to 3.00 PM
Batticaloa	040	No 293, Trincomalee Road, Batticaloa	Batticaloa	065-4976777	065-2228486	Weekdays : 9.00 AM to 3.00 PM
Borella	031	No 996A, Maradana Road, Colombo 8	Colombo	011-4374207	011-2696461	Weekdays : 9.00 AM to 3.00 PM
Chilaw	036	No 58, Colombo Road, Chilaw	Puttalam	032-4976777	032-2224756	Weekdays : 9.00 AM to 3.00 PM
Chunnakam	061	No 92, Dr. Subramaniyam Road, Chunnakam	Jaffna	021-4923422	021-2241889	Weekdays : 9.00 AM to 3.00 PM
Colombo Gold Centre	078	No 48 GF & 53 UF, Colombo Gold Center, Central Super Market, Pettah	Colombo	011-4061241	011-2339383	Weekdays : 9.00 AM to 3.00 PM
Dam Street	019	No 22, Dam Street, Colombo 12	Colombo	011-4374130	011-2346052	Weekdays : 9.00 AM to 3.00 PM
Dambulla	049	Jayalanka Building, Kandy Road, Dambulla	Matale	066-4928970	066-2284844	Weekdays : 9.00 AM to 3.00 PM
Dankotuwa	083	No 17 and 19, Nattandiya Road, Dankotuwa	Puttalam	031-4937130	031–2265790	Weekdays : 9.00 AM to 3.00 PM
Dehiwala	015	No 104, Galle Road, Dehiwala	Colombo	011-4374077	011-2730624	Weekdays : 9.00 AM to 3.00 PM
Embilipitiya	038	No 49, New Town Road, Embilipitiya	Ratnapura	047-4976777	047-2261624	Weekdays : 9.00 AM to 3.00 PM
Galewela	071	No 201, Kurunegala Road, Galewela	Matale	066-4929970	066-2288320	Weekdays : 9.00 AM to 3.00 PM
Galle	025	No 32, Old Matara Road, Galle	Galle	091-4976777	091-2226835	Weekdays : 9.00 AM to 3.00 PM
Gampaha	011	No 15, Rest house road, Gampaha	Gampaha	033-4976777	033-2220048	Weekdays : 9.00 AM to 3.00 PM
Gampola	030	No 29, Nuwara Eliya Road, Gampola	Kandy	081-4944625	081-2353998	Weekdays : 9.00 AM to 3.00 PM
Hatton	075	No 68, Co-operative Square Building, Hatton	Nuwara Eliya	051-4932040	051-2225665	Weekdays : 9.00 AM to 3.00 PM
Hikkaduwa	084	No 299/C, Galle Road, Pannamgoda, Hikkaduwa.	Galle	091-4944956	0912274084	Weekdays : 9.00 AM to 3.00 PM
Homagama	076	No 381, High Level Road, Homagama	Colombo	011-4385740	011-2098484	Weekdays : 9.00 AM to 3.00 PM
Horana	077	No 95, Ratnapura Road, Horana	Kalutara	034-4941060	034-2266566	Weekdays : 9.00 AM to 3.00 PM
Ja-Ela	066	No 71, Negombo Road, Ja-Ela	Gampaha	011-4344149	011-2232824	Weekdays : 9.00 AM to 3.00 PM
Jaffna	037	No 570, Hospital Road, Jaffna	Jaffna	021-4976777	021-2221485	Weekdays : 9.00 AM to 3.00 PM
Kadawatha	026	No 143/H, Kandy Road, Kadawatha	Gampaha	011-4374185	011-2925192	Weekdays : 9.00 AM to 3.00 PM
Kaduruwela	052	No 918, Batticaloa Road, Kaduruwela	Polonnaruwa	027-4976777	027-2224474	Weekdays : 9.00 AM to 3.00 PM
Kaduwela	081	No 508/4,Avissawella Road,Kaduwela	Colombo	011-4328295	011-2538552	Weekdays : 9.00 AM to 3.00 PM
Kalmunai	042	No 100,104, Batticaloa Road, Kalmunai	Ampara	067-4976777	067-2225590	Weekdays : 9.00 AM to 3.00 PM

Branch Network

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Kalubowila	047	No 46A, S D S Jayasinghe Mawatha, Kalubowila	Colombo	011-4374254	011-2828338	Weekdays : 9.00 AM to 3.00 PM
Kalutara	033	No 219/3, Galle Road, Kalutara South	Kalutara	034-4976777	034-2221258	Weekdays : 9.00 AM to 3.00 PM
Kandy	005	No 123, D S Senanayake Veediya, Kandy	Kandy	081-4976777	081-2232994	Weekdays : 9.00 AM to 3.00 PM
Kandy City Centre	044	No L1-5A,Lower ground floor, Kandy City Centre, No 5,Dalada Veediya, Kandy	Kandy	081-4951034	081-2205776	365 Days : 9.00 AM to 3.00 PM
Katugastota	020	No 57, Kurunegala road, Katugastota	Kandy	081-4946135	081-2500362	Weekdays : 9.00 AM to 3.00 PM
Kegalle	027	No 107 ,Main Street, Kegalle	Kegalle	035-4976777	035-2221018	Weekdays : 9.00 AM to 3.00 PM
Kekirawa	067	No 91,93, Main Street, Kekirawa	Anuradhapura	025-4928934	025-2264598	Weekdays : 9.00 AM to 3.00 PM
Kilinochchi	043	No 161,Kandy Road, Kilinochchi	Kilinochchi	021-4925952	021-2280075	Weekdays : 9.00 AM to 3.00 PM
Kiribathgoda	054	No 67, Makola Road, Kiribathgoda	Gampaha	011-4376061	011-2911041	Weekdays : 9.00 AM to 3.00 PM
Kirulapone	022	No 100 High Level Road, Colombo 06	Colombo	011-4374152	011-2515227	Weekdays : 9.00 AM to 3.00 PM
Kollupitiya	003	No 450, Galle Road, Colombo 03	Colombo	011-4667022	011-2301150	365 Days : 9.00 AM to 3.00 PM
Kotahena	014	No 215A, George R De Silva Mawatha, Colombo 13	Colombo	011-4374066	011-2346066	Weekdays : 9.00 AM to 3.00 PM
Kottawa	080	No 364/11, High level Road, Kottawa	Colombo	011-4324145	011-2172950	Weekdays : 9.00 AM to 3.00 PM
Kuliyapitiya	046	No 74 Kurunegala Road, Kuliyapitiya	Kurunegala	037-4943733	037-2284141	Weekdays : 9.00 AM to 3.00 PM
Kundasale	058	No 248, Digana Road, Kundasale	Kandy	081-4951644	081-2424624	Weekdays : 9.00 AM to 3.00 PM
Kurunegala	012	No 22, Suratissa Mawatha, Kurunegala	Kurunegala	037-4976777	037-2221731	Weekdays : 9.00 AM to 3.00 PM
Maharagama	023	No. 173/1, High Level Road, Maharagama	Colombo	011-4374163	011-2838397	365 Days : 9.00 AM to 3.00 PM
Malabe	035	No 410/2, Athurugiriya Road, Malabe	Colombo	011-4374218	011-2744405	Weekdays : 9.00 AM to 3.00 PM
Matale	039	No 165, Trincomalee Street, Matale	Matale	066-4976777	066-2223007	Weekdays : 9.00 AM to 3.00 PM
Matara	013	No 45B, Anagarika Dharmapala Mawatha, Matara	Matara	041-4976777	041-2231362	Weekdays : 9.00 AM to 3.00 PM
Mawanella	082	No 300, Kandy Road, Mawanella	Kegalle	035-4935291	035-2246140	Weekdays : 9.00 AM to 3.00 PM
Minuwangoda	069	No 42, Veyangoda Road, Minuwangoda	Gampaha	011-4335770	011-2295929	Weekdays : 9.00 AM to 3.00 PM
Monaragala	059	No. 141, Wellawaya Road, Monaragala	Monaragala	055-4929313	055-2277223	Weekdays : 9.00 AM to 3.00 PM
Moratuwa	024	No 517,Galle Road, Rawathawatte, Moratuwa.	Colombo	011-4374174	011-2641354	Weekdays : 9.00 AM to 3.00 PM
Narahenpita	021	No 526, Elvitigala Mawatha, Colombo 05	Colombo	011-4374141	011-2368667	Weekdays : 9.00 AM to 3.00 PM
Nawala	079	No 162, Nawala Road, Nugegoda	Colombo	011-4322814	011-2853043	Weekdays : 9.00 AM to 3.00 PM
Negombo	010	No 199, St. Joseph's Street, Negombo	Gampaha	031-4976777	031-2231259	Weekdays : 9.00 AM to 3.00 PM
Nelliady	056	No 208A, Jaffna Road, Nelliady	Jaffna	021-4923164	021-3734879	Weekdays : 9.00 AM to 3.00 PM
Nugegoda	008	No 132C, High Level Road, Nugegoda	Colombo	011-4374044	011-2828228	Weekdays : 9.00 AM to 3.00 PM
Old Moor Street	018	No 314, Old Moor Street, Colombo 12	Colombo	011-4374099	011-2392897	Weekdays : 9.00 AM to 3.00 PM
Panadura	017	No 506, Galle Road, Panadura	Kalutara	038-4976777	038-2243053	Weekdays : 9.00 AM to 3.00 PM
Panchikawatta	002	No 262 , Sri Sangaraja Mawatha, Colombo 10	Colombo	011-4374011	011-2447452	Weekdays : 9.00 AM to 3.00 PM
Peradeniya	051	No 767, 769 & 769/11, Sirimawo Bandaranaike Mawatha, Kandy	Kandy	081-4951180	081-2232441	Weekdays : 9.00 AM to 3.00 PM
Pettah	004	No 64, Keyzer Street, Colombo 11	Colombo	011-4374022	011-5363652	Weekdays : 9.00 AM to 3.00 PM
Pilimathalawa	065	No 207, Colombo Road, Pilimathalawa	Kandy	081-4951870	081-2575335	Weekdays : 9.00 AM to 3.00 PM
Piliyandala	055	No 107, Horana Road, Mampe, Piliyandala	Colombo	011-4376251	011-2604070	Weekdays : 9.00 AM to 3.00 PM

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Puttalam	064	No 116A, Kurunegala Road, Puttalam	Puttalam	032-4929663	032-2267967	Weekdays : 9.00 AM to 3.00 PM
Rajagiriya	006	No 468, Kotte Road, Rajagiriya	Colombo	011-4374033	011-2866823	Weekdays : 9.00 AM to 3.00 PM
Ratmalana	050	No 446, Galle Road, Ratmalana	Colombo	011-4374261	011-2738840	Weekdays : 9.00 AM to 3.00 PM
Ratnapura	007	No 37, Bandaranayake Mawatha, Ratnapura	Ratnapura	045-4976777	045-2231848	Weekdays : 9.00 AM to 3.00 PM
Tangalle	074	No 3, Annapitiya Road, Tangalle	Hambantota	047-4929626	047-2241215	Weekdays : 9.00 AM to 3.00 PM
Thalawathugoda	068	No 351/E, Pannipitiya Road, Thalawathugoda	Colombo	011-4344650	011-2796016	Weekdays : 9.00 AM to 3.00 PM
Trincomalee	073	No 459, Dockyard Road, Trincomalee	Trincomalee	026-4925525	026-2225700	Weekdays : 9.00 AM to 3.00 PM
Vavuniya	034	No 14, 2nd Cross Street, Vauniya	Vavuniya	024-4976777	024-2225444	Weekdays : 9.00 AM to 3.00 PM
Warakapola	070	No 139, Kandy Road, Warakapola	Kegalle	035-4928777	035-2267544	Weekdays : 9.00 AM to 3.00 PM
Wattala	016	No. 218, Negombo road, Wattala	Gampaha	011-4374088	011-2945104	Weekdays : 9.00 AM to 3.00 PM
Weligama	085	No 204, Hettiveediya, Weligama	Matara	041-4933116	041-2252595	Weekdays : 9.00 AM to 3.00 PM
Wellawatte	029	No 135, Galle Road, Colombo 06	Colombo	011-4374196	011-2362399	Weekdays : 9.00 AM to 3.00 PM
Wennappuwa	028	No 6, Chilaw Road, Wennappuwa	Puttalam	031-4934870	031-2249556	Weekdays : 9.00 AM to 3.00 PM
World Trade Centre	001	Level 2, East Tower, World Trade Centre, Colombo 01	Colombo	011-4976777	011-2346053	Weekdays : 9.00 AM to 3.00 PM

Correspondent Banks

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

2. UNITED STATES OF AMERICA
- Standard Chartered Bank
- American Express Bank Ltd.
- Bank of New York Mellon
- Deutsche Bank Trust Company Americas
- Habib American Bank
- Israel Discount Bank of New York
- JP Morgan Chase Bank N.A.
- Mashreq Bank PSC
- Wells Fargo Bank N.A.
- Credit Agricole CIB
- Citibank N.A.
- HSBC Bank USA, N.A.

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

4. CHILE
- Banco Santander Chile

5. IRELAND
- Danske Bank A/S

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

7. NETHERLANDS
- Habib Bank Ltd.

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

9. DENMARK
- Danske Bank A/S

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

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

12. SWEDEN
- Danske Bank

13. SERBIA
- Unicredit Bank SRBIJA A.D

14. ROMANIA
- Unicredit Bank SA

15. EGYPT
- Mashreq Bank

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

17. TURKEY
- ICBC Turkey Bank A.S.

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

19. ZIMBABWE
- Standard Chartered Bank Zimbabwe Ltd.

20. ZAMBIA
- Standard Chartered Bank Zambia PLC

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

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

23. JORDAN
- Standard Chartered Bank

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

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

26. BAHRAIN
- Standard Chartered Bank

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

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

29. SEYCHELLS
- Bank of Ceylon

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

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

32. INDIA
- Bank of Ceylon
- Bank of Nova Scotia
- HDFC Bank Limited
- ICICI Bank Ltd.
- Mashreq Bank
- Standard Chartered Bank
- Tamilnad Mercantile Bank Ltd.
- YES Bank Ltd.
- Citibank N.A.
- Mizuho Bank Ltd.
- Doha Bank Q S C
- Indian Overseas Bank

33. NEPAL
- Himalayan Bank Ltd
- Laxmi Bank Ltd.

34. RUSSIA
- Unicredit Bank AO

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

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

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

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

39. SINGAPORE
- Commerzbank AG,
- Credit Agricole CIB
- DBS Bank Ltd
- Fortis Bank S.A./ N.V., Singapore
- Malayan Banking Berhad
- National Australia Bank
- Nordea Bank Finland PLC
- Overseas Chinese Banking Corporation Ltd.
- Standard Chartered Bank (Singapore) Ltd.
- Citibank N.A.
- HSBC Limited

40. CAMBODIA
- ANZ Royal Bank of Cambodia Ltd.

41. VIETNAM
- Australia and New Zealand Banking Group Ltd.
- Standard Chartered Bank (Vietnam) Ltd.
- HSBC Bank (Vietnam) Ltd.

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

43. TAIWAN
- ABN Amro Bank N.V.
- The Bank of New York Mellon
- Deutsche Bank AG,
- Standard Chartered Bank (Taiwan) Ltd.
- Wells Fargo Bank N.A.
- DBS Bank (Taiwan) Ltd.
- Citibank Taiwan Ltd.

44. PHILIPPINES
- Citibank N.A.

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

46. KOREA
- Kookmin Bank
- KEB Hana Bank
- Shinhan Bank
- Standard Chartered First Bank Korea Ltd.
- Woori Bank
- Citibank Korea INC

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

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

49. SOLOMON ISLANDS
- Pan Oceanic Bank

50. NEW ZEALAND
- ANZ Bank New Zealand Ltd.

Corporate Social Responsibility

Our commitment to build a better future for Sri Lanka

Pan Asia Bank pledges its support to the United Nations' Sustainable Development Goals (UN SDGs) and has embedded sustainability in its corporate culture and ethos. Demonstrating its corporate stewardship, the Bank focuses on enhancing the lives of people in the community, and safeguards the environment by conducting environmentally-friendly activities and by nurturing its employees with an empowering culture in the workplace. Despite the pandemic-induced challenges for the past two years, Pan Asia Bank has remained committed to driving a green economy.

Community

At Pan Asia Bank, the community within which it operates is a key stakeholder pillar, sharing the value it creates amongst all stakeholders. As a result, the Bank has aligned its goals, which extends beyond financial profit. As the nation's green bank, Pan Asia Bank has been recognised locally and globally for its pioneering environmentally-friendly projects in banking and other initiatives to improve and preserve the environment in the country. As the Truly Sri Lankan Bank, Pan Asia Bank is acutely aware of the needs of the people, both at the grassroots and at the top of the economic pyramid - and has always devised banking products and solutions that address their concerns and fulfill their aspirations.

Quick Relief measures

Pan Asia Bank's Gampola and Hatton branches donated a dryer machine to Nawalapitiya's District General Hospital's COVID-19 ICU, HDU units. The aim of the project was to strengthen the hospital's capacity to care for COVID-19 patients during the pandemic. The District General Hospital has had to care for many COVID-19 patients in the area and the donation machines enhanced their services for patients. This is yet another of Pan Asia Bank's, as The Truly Sri Lankan Bank, initiatives to support the nation in its battle against the global pandemic.

Uplifting Sri Lankan Livelihood. Rehabilitation of rural tanks and anicuts.

Pan Asia Bank recently completed the rehabilitation of the Mahawewa tank in the Balagolla wasama region of the Kurunegala District. The tank is located in a remote village called Egodagama where scores of families depend on paddy farming to survive. The only two tanks in the village, Mahawewa and Muhunwewa, 19 and 4 acres respectively, were covered with mud and Eichhornia plants and had fallen into disrepair. As a result, the water capacity fell to 20% of actual capacity, thereby impacting the paddy farmers negatively. In response, Pan Asia Bank successfully carried out the cleaning and rehabilitations of the tanks to increase water capacity to 100% of total capacity, thereby benefitting the paddy farmers who cultivate over 140 acres of paddy fields. The Bank invested an amount of Rs. 4.59 million towards this initiative. This project is the first of its kind undertaken by the Bank and the first such public - private partnership. Pan Asia Bank is committed to many other green initiatives which restore lost natural heritage.

Supporting Customers

Customer convenience was prioritised through the year by ensuring they could conduct online transaction on Pan Asia Bank's digital platforms. All branches were complying with the most stringent health and hygiene protocols. Further, the Bank was at the forefront of providing financial assistance and other reliefs to customers who have been affected by COVID-19 pandemic and prolong lockdowns.

Environment

Preserving the environment has become more important than ever, as various natural disasters and manmade threats to the planet increase by the day. Sri Lanka has always possessed some of the highest biodiversity levels in the world and a rich eco-system - but much of that heritage may not last unless a proactive effort is made to conserve it. Pan Asia Bank has established a green financing line of business with separate business units dedicated for identifying financing and support of impactful green initiatives, backed by local and global finance funding agencies. Notably, Pan Asia Bank became the first Sri Lankan bank to partner with the Switzerland-based Symbiotics for its first green bond issuance for USD 7.75 million in 2020. With this funding line, Pan Asia Bank aims to focus on promoting indigenous crops to strengthening sustainable agricultural practices. The Bank's green efforts were reaffirmed by the bestowal of the prestigious 'Global Climate Partnership Award' 2019 by The Global Climate Partnership Fund (GCPF), one of the world's largest climate funds. These are just a few several other noteworthy accolades won by the Bank. As the nation's green bank, Pan Asia Bank has been recognised locally and globally for its pioneering environmentally-friendly projects in banking and other initiatives to improve and preserve the environment in the country.

Sprinkle Irrigation solutions for sugarcane farmers in Pelwatte

As the Truly Sri Lankan Bank, Pan Asia Bank has played a pivotal role in promoting the sustainable development of the local economy - with a special emphasis on supporting SMEs engaged in agriculture and related industries, partnering both governmental and non-governmental organisations to further deepen its impact. Pan Asia Bank, Lanka Sugar Co., Agriculture Insurance Board and Bartleet Co. entered into a in landmark Public-Private partnership to provide Sprinkle Irrigation Solutions to Sugarcane Farmers.

In line with this goal, Pan Asia Bank launched another special financing project through its Monaragala Branch to benefit the local sugarcane farming community by way of sprinkler irrigation technology for enhancing local sugar production. This special project by Pan Asia Bank will go a long way in achieving the targets of local sugar production and will directly contribute to the strengthening of the economy of the sugarcane farming community.

The first phase of this project to popularise sugarcane cultivation with sprinkler irrigation will cover an area of about one thousand hectares, and the number of farming families receiving relief will be around 500. Pan Asia Bank extended loan benefits for the purchase of sprinkler water equipment to 65 selected farming families to commence the project. A field trip was also organised on the day to see how these types of equipment are incorporated in the field.

Pan Asia Bank will also provide technical consultation and sprinkler water kits with a 10-year warranty through Bartleet and special coverage for sugarcane cultivation through the Agrarian Insurance Board. Pan Asia Bank, Pelwatta Lanka Sugar Company, and Bartleet have recently signed a Memorandum of Understanding (MoU) in this regard recently. Annual rainfall is a constraining factor In the Monaragala District, which is known as a dry agro-climatic zone. According to a survey conducted in collaboration with Hector Kobbekaduwa, the Agrarian Research and Training Institute, systematic irrigation of sugarcane can double the final yield. Accordingly, the Development Banking Division of Pan Asia Bank has taken steps to introduce a special concessionary loan scheme focusing on directing farmers, introducing new technological water supply strategies and providing high-quality equipment.

Corporate Social Responsibility

> **"The emphasis placed by more and more companies on corporate social responsibility, symbolises the recognition that prosperity is best achieved in an inclusive society.** -Tony Blair - **"**

In addition to providing basic facilities by introducing various loan schemes for various sectors, guiding new entrepreneurs, providing necessary training and technical services, accounting and marketing are some of the important services that Pan Asia Bank provides for a sustainable impact. Its sustainable approach is focused on uplifting remote villages in order to enrich the rural economy through its wide branch network. The Bank's green financing efforts have led it to be awarded 'Best Green Bank for 2020 in Sri Lanka' by the International Global Finance Magazine for its eco-friendly financial contribution to a prosperous green tomorrow by utilising natural resources more efficiently. As the Truly Sri Lankan Bank, Pan Asia Bank's ambition to contribute to the country in the future with this public-private partnership green loan project is aimed at ensuring the prosperity of future generations.

Grow Green Project

As the Truly Sri Lankan Bank, Pan Asia Bank is committed to many other green initiatives, which restore lost natural heritage. As part of this commitment, Pan Asia Bank has undertaken another initiative by partnering with Dharmaraja College in Kandy, which is a renowned educational institution with a long history and a rich heritage. It has its own forest area with ecologically diverse flora which is one of the largest and one of its kind.

The Truly Sri Lankan Bank and Dharmaraja College together initiated 'Grow green' to rebuild this eco system by engaging the young students to embark on a journey of building the nation at the very young age so that they can take their experience and protect the environment in the future. Pan Asia Bank partnered with the Old Boys Association of Dharmaraja College and the Interact Club to plant 200 medicinal and other valuable plants in the school premises where soil erosion was occurring. The selected trees are compatible with the rest of the eco system.

Every tree will be planted by a Grade 1 student and will be allocated to the student who planted the tree by having the student's name displayed on the tree. This will provide the student who planted the tree the motivation to look after it for the next 13 or 14 years until he leaves the school. So, every tree will get a guardian until it becomes a large tree. Going a step forward, five of these trees will be allocated for a Interact Club member who has to ensure that these students are looking after the trees and will report to the project office on the progress of the trees to ensure the sustainability of the project. As the Truly Sri Lankan Bank, Pan Asia Bank is always committed to protect and improve energy investments and guidance in these kinds of futuristic development projects.

Great things in business are never done by one person. They're done by a team of people. -Steve Jobs-

At Pan Asia Bank, we hold our employees in the highest regard, as they continue to drive us to reach greater heights. Despite the many obstacles and turbulence elicited by the COVID-19 pandemic being felt across the organisation and the economy, the dedication, commitment, and the wide-ranging competencies of our workforce saw Pan Asia Bank adapt to the changing times, and achieve continued success.

A Timely, Strategic Perspective

In light of the debilitating backdrop against which the Bank operated in 2021, our primary focus was laid in prioritising our employees' well-being, thereby enabling our employees to achieve their full potential while increasing their job satisfaction and motivation.

As COVID-19 continued to ravage the nation with rising infections, travel restrictions and new variants, PABC's HR function underwent complete transformation via a two-pronged focus on Employee Health and Safety and Digital Transformation. This renewed focus towards employee health and the digitisation of the workforce enabled us to protect and prioritise their well-being amid a crucial time, while ensuring business continuity in the midst of an uncertain and volatile business environment.

Furthermore, our Bank's employee-centric culture produced a flexible and positive work environment, thereby enabling employees to achieve their given targets and contribute to the company's growth. Through our employees' valuable support, we were empowered to soar to greater heights; producing further improved customer service, higher levels of productivity, and better financial results.

Recruitment and Onboarding

At Pan Asia Bank, we believe in the power of investing in a youthful, dynamic workforce, to ensure the Bank remains apprised of new developments and trends in the marketplace, while providing the assurance of a constant flow of progressive, innovative ideas.

In order to recruit and source talent from promising future generations, geared to lead our organisation to the future, we rely primarily on appropriate professional platforms such as LinkedIn in addition to other social media channels. As in the previous years, we were successful in maintaining a strong employer brand, by preserving the talent hiring process as a long-term endeavor. A comprehensive database on potential applicants is maintained to ensure a steady pool of talent is available for future needs.

With the many challenges faced with the COVID-19 pandemic, by using different strategies, we ensured to optimise talent acquisition and skills management within the workforce, throughout the year. We prioritised to carry out recruitment based on the business needs and delivered the required numbers to support the revenue growth. To ensure the safety of staff, all the interviews were carried out through online where the candidates and panel members join the interviews online at a predetermined time. This method helped to save time, flexible, convenient and mostly avoided the risk of physically facing a group of candidates who were from different areas of the country. Therefore, we had to introduce these new methods of interviewing techniques to assess the skills of all new talents. Similar to previous years, the Bank ensured the hiring strategy focused on long-term perspective of establishing a leadership pipeline and driving future succession planning.

In order to make new recruits feel comfortable and at ease, a strong onboarding process is currently in place. Thus, to make the recruits adapt faster to the new environment close contact was maintained with candidates throughout the entirety of the onboarding process. This was maintained from the moment the offer letter was administered until the employee's first day at the organisation. As a safety precaution, all onboarding

Internal Talent Growth

10%

Retention

Over 94%

Training man hours

20,673

Human Capital

> **The strength of the team is each individual member. The strength of each member is the team.** -Phil Jackson-

documents were collected by way of scanned copies through e mail while the required original documents were collected on the joining date. The new employee induction programme too was conducted online. All new recruits were placed into buddy programmes and were assigned an individual buddy, which allowed the Bank to occasionally observe the pulse of new hires. This programme served to facilitate the retention of the workforce alongside increasing productivity and job satisfaction. Despite of all challenges in 2021, we hired 102 employees to support the business requirements.

Career Progression

We further empower and encourage our existing work force by means of offering internal opportunities for growth and progress prior to embarking on the external recruitment of new employees. Outside talent is only sought when a suitable employee cannot be sourced from within the organisation for specific skill set; a measure that serves to increase staff motivation and drive, through facilitating the achievement of our peoples' goals, by enabling employees to progress further up the career ladder and achieve their full potential.

The bank re-evaluated the internal cadre of each Business Unit at the beginning of the year to ensure the right resources are allocated to suitable positions, ensuring that existing staff members have been assigned and utilised in an optimal manner.

During the year, 143 members from within the workforce were offered promotions and elevated their career. This is 10% of the total work force. This year also the promotion exams were conducted online at 8 Esoft Centres around the country.

Measures to map out successors pertaining to Key Management Positions were continued while 2nd level successors too were identified and started the development programs for them during the year, with the motive of discovering existing talent within the organisation to take on the respective roles in future.

Performance Management and Evaluation

To ensure success, both measurable and achievable financial and non-financial Key Performance Indicators (KPIs) were set for all staff in the Bank, based on the Board approved KPIs given for each respective Key Management Personnel (KMP). This helped to determine the degree of progress made towards the achievement of the Bank's business objectives. Employees and their supervisors engage in mid-year reviews which provide the basis for them to discuss further improvements, fostering a comfortable environment for employees and managers to discuss the relevant expectations of each party. Ratings were provided to staff members based on their year-end final performance evaluations, which drive benefits and rewards. In addition, the members of the workforce are provided with constructive feedback and made aware of any potential areas of improvement. Poor performers were encouraged and motivated, and given a clear path for growth via dedicated Performance Improvement Plans.

The 'Together We Rise' Model implemented two years prior to evaluate the performance of entire branch network was continued in 2021 too. In addition, the performance of the support divisions were evaluated in line with the previously mentioned KPIs, based on business-centric measurable goals, enabling Pan Asia Bank to achieve the set targets and goals and even records a powerful performance against a challenging backdrop.

With all due challenges, we managed to complete the performance evaluation cycles well in advance and pay bonuses and annual increments prior to due dates and keep the staff motivated.

Aligning HR Policies with Business Needs

In order to align and recalibrate ourselves according to the industry's ever-changing environment while maintaining the pace with future developments and further advancements, some HR policies were updated, reviewed and implemented.

Investment in Learning and Development

As the corporate environment registers rapid changes in terms of technology advancements and global innovations, customer needs and aspirations continue to evolve in line with the many possibilities available to them today. Particularly with respect to the banking industry, customer satisfaction and retention plays a vital role.

Against this backdrop, developing and grooming the employees of any organisation to face the challenges of the new normal and remain competitive is imperative. As a bank dedicated towards the well-being of our workforce as well as that of our customers, we work tirelessly to equip our people with the productivity, efficiency and skills necessary to realise their full potential, while concurrently promoting excellence in customer relationship management at every turn. Such an exercise would strike a balance between achieving the growth and progress of both employer and employee, while driving the continued growth and emergence of the banking sector.

Therefore, Pan Asia Bank considers our training and development programmes a topmost priority, expending a considerable investment to focus on the multi-dimensional development of our human resources on par with global standards.

In 2021, our training and development activities faced significant challenges posed by the COVID-19 pandemic, particularly with respect to the continued social distancing measures that took place during the year under review. However, due to our agile, adaptable nature, we enabled to conduct training programs to develop and expand the horizons of our workforce, via the utilisation of a host of online platforms and tools, which were comfortably utilised by the staff in terms of learning and upgrading their skills.

As a direct result of these new methodologies, both the Bank and its employees experienced numerous benefits, including flexibility, productivity and convenience. The staff continued to be exposed to in-house and external training in order to gain a wider range of knowledge, skills and processes, in order to take up the challenges of the future, while improving the levels of efficiency and effectiveness required to achieve the Bank's goals.

Some key online programmes were conducted by the Bank during the year under review are given below:

Strategic Communication Skills Development Programme

In today's fast-paced workplace, the concept of communication has moved far beyond the act of mere 'dissemination of information'. In fact, it has assumed a 'strategic' role and has emerged as a prerequisite as well as an instrument in ensuring exchange of views and in establishing consensus among divergent opinions and interests between diverse stakeholders. Strategic communication facilitates building of know-how, fosters cooperation, strengthens professional relationships and builds a productive and engaging working environment – all of which are essential facets in achieving organisational success.

Considering the significance of strategic communication for organisational success a special workshop titled, Strategic Communication Skills Development Programme was conducted, targeting all managerial staff of the Bank who play an important part in the organisational communication process.

People Management Skill Development Programme

People management has never been more critical. Since the outbreak of the pandemic, the world of work has experienced a plethora of disruptions and has witnessed multiple changes in work styles, practices, processes, behaviours and systems. Human capital being the 'key differentiator and intervening factor' between organisational success and failure, managing human capital in a productive manner amidst the evolving business environment has emerged as a top priority for all successful managers and progressive business leaders.

To cater to this emerging business need, of effective People Management Skills for achieving optimum workplace productivity and sustainable results, a special workshop was organised on developing People Management Skills of the Bank's Senior Managers, Branch Managers and Assistant Managers attached to support units and the branch network.

Orientation on culture and vision of the bank

Organisational culture is the personality of the organisation. Culture reflects assumptions, values, norms, behaviours, beliefs and many other facets that differentiate one organisation from another. It is particularly important to new employees in their attempt to successfully adapt to the new organisational environment and their job roles.

In view of this, a special online session was conducted on the Bank's culture and vision targeting all new employees who joined the Bank in recent months. The programme consisted with diverse areas relating to the culture of the Bank; core values, beliefs, expectations, obligations, organisational philosophy as well as strategic vision of the bank and as to how each employee can align themselves with the envisaged vision of the Bank.

Customer Experience Development Programme

In this competitive and ever changing financial industry the customer service delivery place a vital role in satisfying the customers. Therefore, these skills of our employees should be enhanced and brushed up all the time to compete in the market positively. The staff attached to the branch network should be well focused to deliver a consistent excellent service to the customers to transform them to our bank advocates. Hence, as a step forward, Customer Experience Development Programme was initiated inclusive of 2 sessions. 'The Values and Attitudes of a Service Personnel' and 'Relationship Marketing and Service Quality' were the sessions covered in this programme.

Branch Operations Certification Programme

The competency development needs, especially, in respect of improving essential technical skills of front-line staff were taken seriously and has been addressed through Branch Operations Certification Programme. This programme was inclusive of essential modules to improve the knowledge of branch banking and the legality when handling customers in a more professional manner. The respective modules were conducted by our internal trainer faculty as well as external trainers who are experts in the relevant subjects. Further, the participants' knowledge was assessed through an examination and interviews and certified 28 successful participants accordingly.

Credit Knowledge Development Programme

This programme designed to develop credit related competencies, sharpening credit knowledge/skills and sharing the best practices in lending

Human Capital

among the credit officers of the Bank. This was a well-structured programme to enhance the credit technical and practical knowledge in Retail and SME lending to improve the lending book with quality credit. The sessions were conducted online by our own internal expertise and product owners. The participants' skill and knowledge were also assessed post training programme to analyse the knowledge level, programme success and also to identify further development areas of officers.

Branch Managers' SME Credit Mentoring Programme

The Government of Sri Lanka recognises SMEs as the backbone of the economy, as it accounts for more than 75% of the total number of enterprises, provides 45% of the employment and contributes to 52% of the Gross Domestic Production (GDP). Pan Asia Bank also has identified the importance of lending to Small and Medium Enterprises for the long-standing business opportunities as well as to have a stable growth in the bank profitability. Hence, understanding this requirement the Bank introduced this mentoring programme for all the Area Managers and branch Managers which was conducted region wise to make the forum fruitful. The programme was facilitated by a panel representing main departments involves in the credit process. The panel comprised of corporate and senior management and was successful with many suggestions and ideas for the credit growth and betterment of the Bank.

Sales Skills Development Programme

In the competitive industry of banking, banks need to enter in to new markets and win new customers. Furthermore, it is important to increase the loyalty of the existing customers. Hence, understanding this importance and also being the direct contact point with the customers, Pan Asia Bank organised a Sales Skills Development programme for all the employees attached to the branch network. The programme was facilitated by external expertise in the subject and employees' were categorised grade wise to enhance the knowledge and the skills with more clarity and participation of the employees.

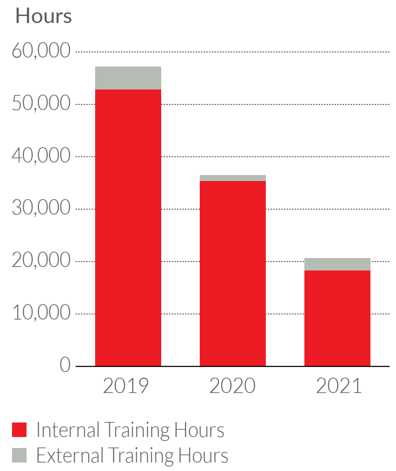
Training hours

The total training hours conducted during the year is 20,673 hours.

Total Training Hours

Training Category	2019	2020	2021
Internal Training Hours	52,792	35,363	18,245
External Training Hours	4,425	1,170	2,428
Total Training Hours	57,217	36,533	20,673

Total Training Hours



Employee Empowerment

Furthermore, as much as we value the well-being and satisfaction of our employees, we also value their inputs and contributions to the advancement and development of our company. At Pan Asia Bank we hold in high esteem the voices of our employees, believing that in actively considering and implementing their suggestions and propositions we will in turn generate innovative solutions and thus take our organisation to greater heights.

As an organisation built on employee-centricity, we are aware that listening to the voices of our employees and adopting their ideas results in the development of a sense of belonging to the organisation. Incorporating our staff into the core parts of the decision-making process not only develops staff satisfaction but further increases employee drive and productivity levels.

Pan Asia Bank remains consistently attentive and mindful of the opinions and concerns of our staff members, maintaining a comfortable and safe environment for employees to freely express themselves through our escalation channels. Such measures foster a positive working environment, where all parties collaborate to realise organisational goals and strive towards balancing the best interests of the workforce and the organisation. Employees are involved in internal decision-making processes by providing them with opportunities to engage in direct discussions with the MD/CEO and the top management levels. This year too, the Bank created multiple opportunities to engage with the staff in such discussions and the following forums served as enablers for these opportunities:

Joint Consultative Council (JCC)

JCC meetings held during the year were successfully fostered by way of cordial and productive relations amongst employees and the management as means to resolve workplace issues that impeded organisational progress. The meetings were held via Zoom, in adherence to the COVID-19 health regulations preventing the occurrence of physical meetings.

Coffee with CEO

The traditional 'Coffee with CEO' programme was held via online platforms as a result of the prevailing pandemic situation in the country. A few key performers from within the workforce were chosen and invited to this forum as a reward for their invaluable service to the organisation. All participants were given the opportunity to speak freely with the MD/CEO and with a few members of the Corporate Management Team who were from the business, thereby enabling employees to share their thoughts, and express their concerns and suggestions.

Grievance Handling and Employee Communication

The following communication channels were maintained during the year to ensure grievances and suggestions were heard at every level, and thereby strengthen the staff grievance handling process:

Telecommunication and Online Channels

Any staff member was given the opportunity to be able to reach HR leaders directly by way of phone calls as their personal numbers were published, by creating WhatsApp groups for all grades and updates via emails. Any employee could share their grievances directly with the senior HR staff which strengthened the staff grievance handling process.

Dedicated HR personnel to listen and escalate Staff Concerns

A dedicated senior HR member was assigned to perform one-on-one sessions and listen to staff grievances has been a success as many issues faced by staff came in to light which were escalated to the top management for immediate resolution thereby was able to minimise dissatisfaction of staff and create a better working environment.

The Bank's newsletter, 'Pan Asia Connect' was published quarterly, and consisted of news related to Pan Asia Bank's engagement activities, organisational performance and other relevant themes.

Employee recognition is performed via the issuance of appreciation letters, which recognise employees for years of service. Personalised birthday wishes are shared via email and shared with all staff within the Bank.

Employee Engagement Activities

We believe engaged employees are highly effective, productive and motivated. Therefore, during the year, we conducted over 30 hosts of delightful, fun activities and 3 social responsible activities despite the pandemic with a view of creating a friendly atmosphere and connected working culture. Participation levels are very high, indicating the enthusiasm of the employees and the degree of enjoyment they achieve. These activities ensure improved work-life balance, and foster greater mental health through the reduction of work-induced pressure and stress.

Thai Pongal Celebrations

All Pan Asians from around the nation joined in to celebrate the colorful and vibrant festival of Thai Pongal. Staff members organised Thai-Pongal festivals and decorated their offices with attractive 'Kolam' - a colorful and intricate design drawn at the entrance of their workplaces. The entrances were also decorated with 'Thoranam' - decorations and garlands made out of fresh banana leaves and mango leaves symbolising the hope of ushering in a prosperous and peaceful future.

Employee Appreciation Day

Acknowledging and recognising our employees' hard work and efforts towards the organisation can go a long way towards building team spirit, mutual understanding, and camaraderie within our diverse teams. 'Employee Appreciation Day' was the perfect platform for Pan Asians to express themselves; to showcase sincere appreciation mutual respect and sincere appreciation to their fellow co-workers for the support and kindness they extend during their work place interactions. During this special 'Employee Appreciation Day', each staff member was requested to email an 'Appreciation Note' to a fellow staff member, expressing his/her appreciation for their support and contribution.

Movie Night

Arrangements were made to screen the popular adventure film, 'Everest', providing the opportunity for both on-site and off-site staff working on a roster basis to enjoy the movie. This was organised as a means to cope with 'workplace stress' and to break the monotony of work. Especially during the COVID-19 pandemic.

Happy Hour

'Happy Hour' is a concept where staff members are encouraged to indulge themselves in any workplace game of their choice, which serves as an effective tool in reducing workplace

Human Capital

stress. Employees took time off their hectic work day to relieve their stress during 'Happy Hour', which served the dual purpose of engaging staff members together in fun-filled activities, thus building team spirit.

Valentine Prince and Princess Contest

Pan Asians celebrated Valentine's day differently; turning the concept into a day where employees express appreciation to one another, connect with each other and build a cooperative spirit, by providing the opportunity for staff members to nominate a Valentine Prince and Princess from amongst their co–workers. This event created much hype and excitement as our young workforce was eager to nominate their co–workers.

International Women's Day Celebrations

Pan Asia joined the world in celebrating women's day, in line with the UN theme of Women in Leadership: Achieving an Equal Future in a COVID-19 World. The main focus of the day was celebrating the tremendous efforts of women employees made towards the organisation amid these challenging times. As part of the celebration, all ladies were encouraged to be clad in either 'Purple' or 'Green' color.

Arrangements were also made to conduct a special presentation titled 'One woman - Many Roles' by well-known personality trainer, Ms. Nayana Karunaratne, who shared her expertise on the multifaceted role of a woman with our female staff via online.

Big Match Fever

Due to pandemic, the big matches were not held in 2021 and to keep the momentum of the big match fever, a 'theme day' was organised during March - the month of the year that heralds the onset of 'Big Matches' in the country. The theme was enthusiastically received by the entire workforce who welcome the opportunity to reminisce on their schooldays and flaunt their school colours. The staff was also encouraged to bring their school flags to be displayed at the workstations while arrangements were made to entertain them with 'papare' music throughout the day, thus creating a thrilling cricketing atmosphere.

Herbal Drinks day

This year a novel concept was initiated to create awareness about Indigenous

Sri Lankan Food and beverages titled 'Hela Osu Pan Day'. The purpose of this programme was to spread awareness and promote the importance of our traditional food and beverages in creating a resilient and healthy nation. The health benefits and medicinal properties were discussed, while simultaneously encouraging staff members to try out a cup of 'Beli Mal' as an alternative to their usual cup of tea.

Sinhala and Tamil New Year Celebrations

Pan Asians around the island enjoyed celebrating Sinhala and Tamil New Year by wearing the traditional Avurudu attire and observing the customs and traditions in their respective branches. All celebrations were carried out cautiously by strictly adhering to health rules and regulations.

Avurudu Kumara and Kumari

The highlight of this year's celebrations was the selection of the Avurudu Kumara and Kumari, which was run on a 'digital voting system' given the prevailing pandemic situation. This provided the opportunity to staff members to choose the Pan Asia Bank Prince and Princess on a virtual platform. Pan Asians engaged in Traditional New Year games with their immediate team members, further strengthening their bonds of friendship and camaraderie.

Long-service Awards

The Long Service Awards Programme celebrates and recognises the career milestones of staff members highlighting and honoring their dedication and contribution towards the success of the Pan Asia Bank. Accordingly, those who completed 25 and 20 years respectively and two 'pioneering members' of the Bank were also honored and recognised during the ceremony in lieu of their loyal and dedicated service. Furthermore, staff members who had completed 10 and 15 years also were recognised.

E-Sports Day

The introduction of an e-sports day was an immediate breaking the monotony of work-life and perfectly met the aspirations of the contemporary employee, particularly with respect to millennial within the workforce, who immensely enjoyed and participated in this event which had been an escape from their daily routine.

Vesak Card Competition 2021

Vesak is the most significant religious festival for Buddhists living around the world. Thus, to celebrate this important festival all staff members were encouraged to express their sentiments towards the festival by capturing the essence of the spirit of Vesak creatively through a Vesak card. The competition drew an overwhelming response from the staff with a large number of creatively designed cards vying for a spot amongst the most creative cards.

'Ape Gedara Vesak'

This initiative was made for staff members to decorate their homes as well as their home gardens with beautiful Vesak lanterns to celebrate this important religious festival with the glamour and grandeur it deserves during lockdown period.

Poson Bakthi Gee

A virtual Poson Bakthi Gee Programme was carried out with the initiative of encouragement for the staff as well as for the benefit of our valued stakeholders and Sri Lankan public who have placed their confidence in Pan Asia Bank as their trusted banking partner. Staff from all regions and the Head Office participated virtually for the second consecutive year and the programme was telecasted on Sri Lanka Rupavahini on the Poson Poya Day.

Kids' and Staff Art Contests

At Pan Asia Bank we value both the service and efforts of our hardworking staff and that of our employee's families, and believe that by incorporating our staff and their families into our programmes, we successfully integrate our staff's work and life. Through this programme, we focused on establishing the concept 'The Family-Friendly Workplace' via two exciting art contests were curated for the staff members and their children, to create a platform for them to showcase their creative prowess. The kids' contest in particular aimed at engaging children in productive activities as a majority of them were unable to take part in their education and extra-curricular activities due to the pandemic-induced closure of schools.

This initiative was an opportunity for both the staff members and their children to relieve the stress associated with health concerns and travel restrictions, enabling them to express their feelings through artistic skill and prowess. Both children and staff

Human Capital

members were assigned with specific themes during this year's contests, under which categories they were expected to submit their respective drawings.

The top Ten drawings of the winners at the Art competition were included in the Bank's desk top calendar 2022 in recognition of staff talent.

Pan Asia Online Quiz Competition

Pan Asians overcame yet another hurdle posed by the ongoing health crisis by holding the bank's Quiz competition through online platforms thereby supporting the continuous learning process of its staff members. The programme attracted a large number of participants who were keen to showcase their knowledge in the specified areas, which fostered a competitive spirit filled with excitement among staff members.

Healthy Food Day

The Bank focuses on improving the well-being of our employees in all aspects; physically, mentally, emotionally, spiritually, and socially, which helps us generate a healthy, satisfied, and productive taskforce. Therefore, in order to address our employees' physical well-being, 'Healthy Food Day' was continued this year to build awareness on the benefits of embracing healthy eating habits for healthy living. This practice has now become a regular monthly feature in the bank's event calendar, and aims to educate staff members on the importance of consuming healthy food and provide a platform to experience the positive impact of healthy eating habits.

Make your Kite @ Home

This was organised with the purpose of keeping the staff members and their families engaged during the prevailing lockdowns, which prevented most individuals from indulging in the usual outdoor activities they prefer to partake in.

Titled 'Make your Kite @ Home' the initiative encouraged the staff members to make a kite at home and launch it with their loved ones as a means of creating a platform for them to indulge in a healthy and active outdoor activity.

Olympic Theme Day

Another exciting 'theme day' was held to commemorate the Olympic Games held in Tokyo. Pan Asians were excited to engage in this 'dress-down event' as there were many vibrant colors to choose from. Staff enthusiastically clad themselves in attire related to the Olympic colours, thus adding a sense of glamour to the workplace.

Photography Contest

Yet another new event was introduced to the Pan Asians calendar this year, in the form of a photography competition aimed to increase employee engagement. The purpose of this programme was to unveil the hitherto unseen talents of our staff members by initiating the first-ever photography contest within the bank; thereby creating an opportunity for the staff to showcase their world as seen through a lens. The contest was open to all staff members who were interested in photography, from amateur photographers, to those who love to capture moments using their camera phones.

A photography club was formed as a means of continuing this employee engagement activity in the coming years, with the purpose of further sharpening their skills and provides opportunities put them into practice by photographing future Bank events.

The top Twenty photographs of the winners at Photography competition were included in the Bank's customer wall calendar 2022 as recognition of staff talent.

Literacy Week Competitions

Another exciting program designed to retain the engagement of the workforce is the Bank's Literacy Week competitions. In order to mark international Literacy week, an array of competitions were initiated by providing staff with the opportunity to showcase their poetic and literary talents via short and long poems, free verses, short stories, and literature reviews. Staff members displayed their creative and innovative talents by producing their very own literary compositions, with a positive response received overall.

Anniversary Celebrations

The Bank's 26th Anniversary celebrations were held in October

2021, celebrating 26 years of valuable service to the nation. Unfortunately, activities were limited due to strict health guidelines. The dress code for the celebrations was Red, White, and Black which are the corporate colors of the Bank. Furthermore, an almsgiving was arranged to the Valukarama temple, Kollupitiya with limited participation.

Pan Asia Debater Contest

The Pan Asia Debater contest was initiated for the first time amongst staff members. Participants from each region and the Head Office competed at this contest, thus acquiring a new experience. The contest also served as a platform to develop communication skills, analytical skills and argumentative skills, while enabling the practice of factual, moral and logical rebuttals.

Deepavali Celebrations

This year, particularly amid all the uncertainty, we wished to spread the light to the whole world –and so Deepavali, the vibrant festival of light was celebrated not only by Hindus but by all Pan Asians, under the theme "Let's Light a Lamp". Pan Asians together with their families lit lamps wishing peace, happiness, and the end of the COVID-19 Pandemic to the nation and the entire world.

Fitness Day

The Bank once again continued to value and prioritise the physical well-being and health of the work force through a well-organised Fitness Day. This was carried out to raise awareness and maintain good health practices, while reducing the risk of developing diseases and health concerns across the entire staff body. Pan Asians performed different physical activities such as gardening, house cleaning, sports activities, hiking/climbing, cycling, exercises in an enthusiastic manner during this programme.

Pan Asia Cyber Sale

Many Pan Asians look forward to and enjoy the annual Pan Asia seasonal cyber sale. However, due to the limitations surrounding the COVID-19 pandemic situation, the cyber sales 'Cyber Avurudu Fair' was held during the Sinhala and Tamil New year, while the 'Cyber Christmas Sale' was held during the Christmas season. A large variety of products were offered at concessionary rates for staff and their families in order to purchase and allow the exchange of gifts A market place was created for the staff to purchase their festive requirements in partnership with several companies while offering attractive discounts and offers.

Deck the Halls

Pan Asians ended the year on a good note, celebrating the festive season of Christmas. This was yet another activity designed to strengthen team spirit, as staff members united to brighten up the workplace with fairy lights, star-topped trees, decorated garlands, and baubles, resulting in a colorful and vibrant office atmosphere. The five best-decorated workplaces were recognised and rewarded, thereby adding more excitement to this event.

Pan Asia Virtual Carols

Pan Asians, despite the ongoing challenges of the pandemic united with their colleagues around the nation for Christmas Carols which was held virtually, continuing the annual tradition in a non-traditional form. The programme was telecasted on Sri Lanka Rupavahini on the day of the Christmas for our valued stakeholders and the Sri Lankan public, and also posted on social media for mass viewing purposes.

Initiatives on Corporate Social Responsibility (CSR)

'Plant a Tree for a Better World'

In focusing on soaring to higher echelons within the financial industry we also direct our focus to protect, sustain and conserve nature for our future generations. Pan Asia Bank continued our meaningful, sustainable initiatives under the theme, 'Plant a Tree for a Better World' on World Environment Day, celebrated on the 5th of June.

It was endearing to witness the enthusiasm demonstrated by Pan Asians together with their family members as they endured the cold, harsh weather to actively take part in the campaign by planting a useful tree in their home gardens, and reflect their passion towards Mother Nature.

Human Capital

Blood Donation Camp

As in the past, Team Pan Asia never hesitates to uplift the lives of Sri Lankans through meaningful efforts for the betterment of society as a whole. The blood donation camp reflects the selfless commitment of Pan Asians to save the lives of fellow human brothers and sisters, particularly amid the prevailing pandemic where the nation stands by in their hour of need. The programme was organised in collaboration with the Blood bank of Apeksha Hospital.

Day of Charity

The 'Day of Charity' is yet another social responsibility initiative undertaken by the Bank where Pan Asians volunteer to make improve the life and health of another human being, thus positively impacting society and mankind. As part of this initiative, Pan Asians volunteered to donate medical equipment to the Lady Ridgeway hospital in a bid to support and contribute towards building a healthier future generation.

Responding to COVID-19 Pandemic

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

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

Employees' Health and Safety

To ensure continuity of business operations and prevent spreading the virus, management of the Bank took necessary actions to split teams into smaller units and establish protocols for working at BCP locations, working remotely and working from home. Further the Bank tends to cancel all social events that encourage large gatherings and encouraged all most all the meetings to be conducted via virtual platforms. All premises have been deployed with the health and safety equipment recommended by the relevant authorities and staff transport was provided to prevent staff using the public transport system where ever possible.

Branches were closed on need basis, in order to protect the staff and valued customers from any internal threats on spreading the disease and on the direction of the Central Bank of Sri Lanka and the government. With the introduction of vaccines intended to provide immunity against the COVID-19, the management of the Bank took a decision to make vaccination as a mandatory requirement, for staff to enter the Bank premises as the main precautionary mechanism for spreading Covid-19 virus among staff members.

Operational Resilience

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

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

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

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

Financial Strength

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

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

Cyber Risk

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

Managing Market volatility

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

Ongoing Monitoring

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

Risk Management

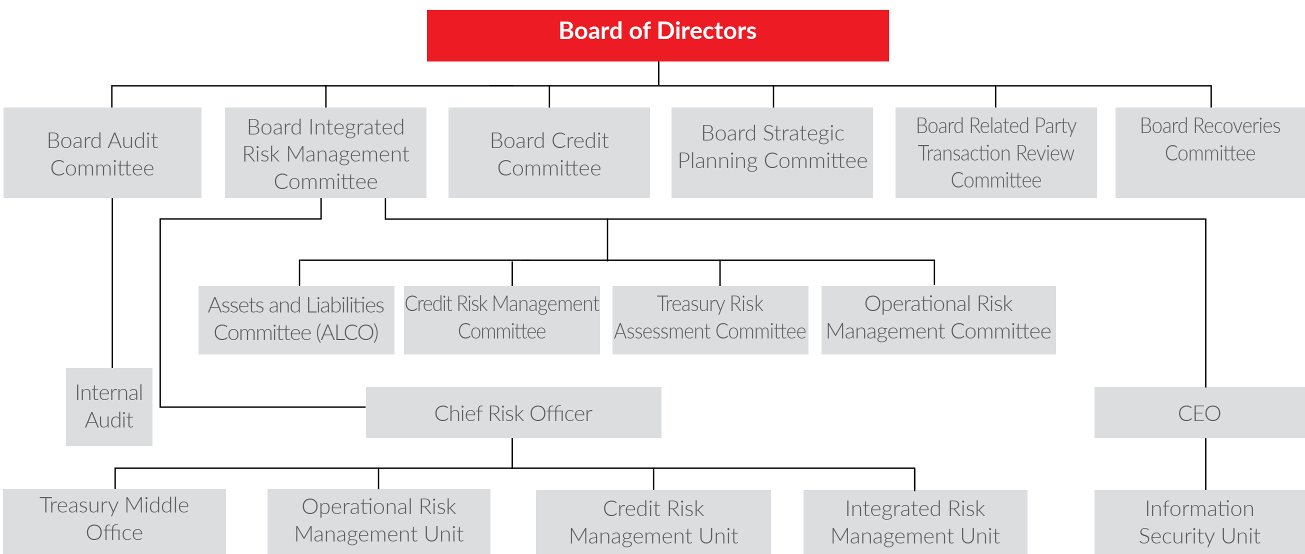
Vision and Culture

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

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

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

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



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

Credit Risk

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

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

Credit Risk Management Committee

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

Credit Concentration

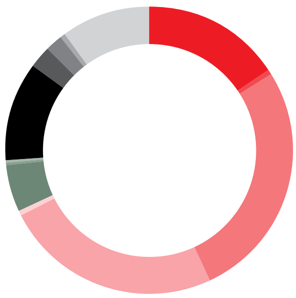
Concentration risk turns up when the credit portfolio is unevenly distributed to individual issuers or counterparties or within industry sectors/sub sectors, segments, internal risk ratings, geographical regions and products.

Sector Concentration

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

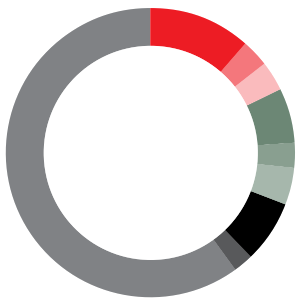
Risk Management

Sector Wise Concentration



Agriculture, Forestry & Fishing	15.79%
Arts, Entertainment & Recreation	0.51%
Construction & Infrastructure Development	27.04%
Consumption	24.40%
Education	0.52%
Financial Services	5.10%
Health Care, Social Services & Support Services	0.42%
Information Technology & Communication Services	0.22%
Manufacturing	11.24%
Professional, Scientific & Technical Activities	2.37%
Tourism	2.06%
Transportation & Storage	0.50%
Wholesale & Retail Trade	9.85%

Geographical Concentration



Central	11.50%
Eastern	2.99%
North Central	3.37%
North Western	6.08%
Northern	2.91%
Sabaragamuwa	4.26%
Sourthern	6.72%
Uva	2.32%
Western	59.85%

Segment Wise Concentration

Corporate	12.19%
Retail	25.70%
SME	62.11%

Market Risk

Market risk is the risk associated with movements in market factors, including foreign exchange rates, interest rates, equity prices and commodity prices which have an impact on the Bank's income or the value of its portfolios. Its effective recognition could minimise the potential loss of earnings or economic values arising principally from customer driven transactions and Banks relevant investments.

The categories of market risk of the Bank are:

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

Market Risk Governance

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

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

Value at Risk (VaR)

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

- Historical simulation
- Monte Carlo simulation
- Parametric method

VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. This exercise is carried out by Treasury Middle Office with the help of Bloomberg system. Results are reviewed periodically at the Board Integrated Risk Management Committee (BIRMC) meetings. VaR is calculated for expected movements over a horizon of one month with confidence levels of 95%, 97.5% and 99%.

Stress Testing

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

Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is the policy of the Bank to ensure that adequate liquidity is maintained in all currencies to meet its obligations.

This is performed through cash flow management, maintenance of liquidity ratios such as statutory liquid asset ratio, liquidity coverage ratio and advances to deposit ratio.

Assets and Liabilities Committee (ALCO)

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

Treasury Risk Assessment Committee (TRAC)

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

Treasury Middle Office (TMO)

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

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

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

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and system or from external events. Operational risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorised activities, errors, omissions, inefficiency, and system failure or from other external events fall within the operational risk definition. However, the mentioned definition includes Risk resulting from Legal aspects and excludes the risk resulting strategic and reputational aspects.

Objectives and Benefits

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

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

- Identifies the Risk Exposures

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

- Develops Visibility

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

- Risk Smart Workforce

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

- Personal Accountability of Employees

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

- Efficient Allocation and Optimum Usage of Bank's Capital

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

- Brand Image of the Bank

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

Philosophy and Principles

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

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

Risk Management

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

Methodologies and Strategies

- For effective monitoring and mitigation of operational risk, the Bank has implemented following methodologies and strategies: The Management of operational risk comprises;
- Identification, assessment, monitoring and control of operational risk and reporting. The above is required to maintain losses within acceptable levels and to protect the Bank from foreseeable future losses. Acceptable losses are highlighted in the Bank's risk appetite statement.
- The Operational Risk Management Unit is supervised by the Manager Operational and Integrated Risk. The department is involved in completing Risk and Control Assessments (RCA) for business/operations units of the whole Bank.
- Operational risk related incident reports are investigated and required remedial actions are recommended and reported to relevant Key Management Personnel.
- Significant risk exposures are reported to business/operations units as and when identified.
- Approved key risk indicators are managed through data gathering and report to BIRMC on a quarterly basis.
- The Chief Risk Officer has an effective monitoring mechanism of operational risk by way of active communications and discussions with employees attached to the Operational Risk Management Unit and Manager-Operational Risk.
- The Operational Risk Management Unit provides continuous training to employees of the branch network and all other departments on Operational Risk Management Framework.
- Risk and Controls Assessments (RCA) are performed on new and existing products and processes to minimise any losses that may be incurred on identified risks. In addition the activities to be outsourced and cost effective controls are recommended to relevant business/operations unit to minimise any future losses.
- Introduction of stress testing on operational risk losses is now conducted quarterly. The results are tabled at the Board Integrated Risk Management Committee.
- Minimise the financial impact of operational risk related losses through adequate monitoring, follow-up and utilisation of insurance cover.

Operational Risk Management Sub Committee

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

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

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

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

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

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

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

Insurance

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

The Business Continuity Plan (BCP)

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

Due Diligence Tests on Activities Outsourced

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

The outsourcing activities are governed by the laws applicable to the banking industry and directions issued by the regulator. Further, the Bank has an Outsourcing Policy approved by the Board of Directors which clearly stipulates required internal controls and due diligence in obtaining outsourced services. Operational Risk Management Department, acts as centralised Outsourced Activities Monitoring Unit, to ensure that all the required documents of outsource service providers are in place and to monitor complaints relating to Outsource Service Providers.

Information and Cyber Security Risk

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

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

The Bank always considers information security risk management as an ongoing process of discovering, correcting, and preventing security problems. The Bank was successfully complied with the ISO 27001:2013 - ISMS surveillance audit after completion of two year certification cycle for adopting and implementing global standards and best practices to ensure the effectiveness, efficiency, confidentiality and integrity of its day-to-day IT operations. The Bank is also implementing 'Baseline Security Standards' (BSS) for most of its banking functions as an effective risk control mechanism. The Bank's information security risk management status presents to the BIRMC in a quarterly manner by the Information Security Officer (ISO) through the information security dashboard. The information security dashboard is the monitoring tool of the current and desired posture of information security in the Bank. It allows the Bank to assess, identify, and modify its overall security posture. It also enables security, operations, organisational leadership, and other personnel to collaborate and view the entire Bank from an attacker's perspective.

Comprehensive security risk management could also determine the value of the various types of data generated and stored across the Bank. To accurately assess risk of data loss, classified the internal data and enforced the Data Leakage Prevention (DLP) policies as a control mechanism.

The primary means of mitigating information security-related risk is through the selection, implementation, maintenance, and continuous monitoring of preventive, detective, and corrective security controls to protect information assets from compromise or to limit the damage to the Bank should a compromise occur. The Bank uses Security Information and Event Management (SIEM) system for continuous monitoring of information security events. During the second consecutive year of the COVID-19 pandemic the Bank has closely monitored remote user behavior for early detections of potential suspicious behavior.

The management has identified the importance of having information

Risk Management

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

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

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

Strategic Risk

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

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

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

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

Reputation Risk

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

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

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

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

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

- Observe trends in the economy which may demand new sectorial growth with regard to the amended policies of the Government. Additional risk management measures will be adopted if the Bank wants to penetrate into unknown territories.
- Risk monitoring tools to be developed with novel methodological ways to suit the future requirement of the business. Going forward, the Bank will further strengthen the mechanisms to scale the entire risk spectrum by giving values to each risk. The aggregate amount of risk will be ascertained by adding those values and the final outcome will be presented for the deliberation of Board Integrated Risk Management Committee regularly.
- Implementation of Social and Environment Management Policy in relation to the Bank's Credit Policy and Procedure will enrich the current credit review procedure covering the external factors/events. Further, this will endorse the Bank as a good corporate citizen who strikes the balance between the triple bottom line People, Planet and Profits.
- Increase the frequency of monitoring to have a closer watch and screen to enrich the risk measurement methods to predict and address the threats of the economic turbulences and vulnerability of the market conditions with the heavy competition and squeezed margins.
- To fully automate the risk rating methodologies with increased number of attributes of identified factors which would improve the internal risk rating procedure
- To develop the front-line staff by way of training programmes, enhancing the capacity of the first line of defence. This measure will deploy better risk management methods with sophisticated employee engagement methods for front line risk identification, measurements and mitigation with greater accuracy.
- Increase the determination on the system security by way of implementation of base line security standards.

Uncompromised Integrity

The ultimate measure of progress is the value we create. As we advance on our quest to greatness, we uncompromisingly move ahead in complete alignment with every single one of our values, driven by the intent to empower others through our performance.

GOVERNANCE

Corporate Governance Report

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

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

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

Board Committees

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

Board Audit Committee - Pages 109 to 111

Board Integrated Risk Management Committee - Page 112

Board Human Resources and Remuneration Committee - Page 113

Board Nomination Committee - Page 114

Board Credit Committee - Page 115

Board Strategic Planning Committee - Pages 116 & 117

Board Related Party Transactions Review Committee - Page 118

Board Recoveries Committee - Page 119

Board IT Steering Committee - Page 120

Major Steering Instruments on Governance

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

External

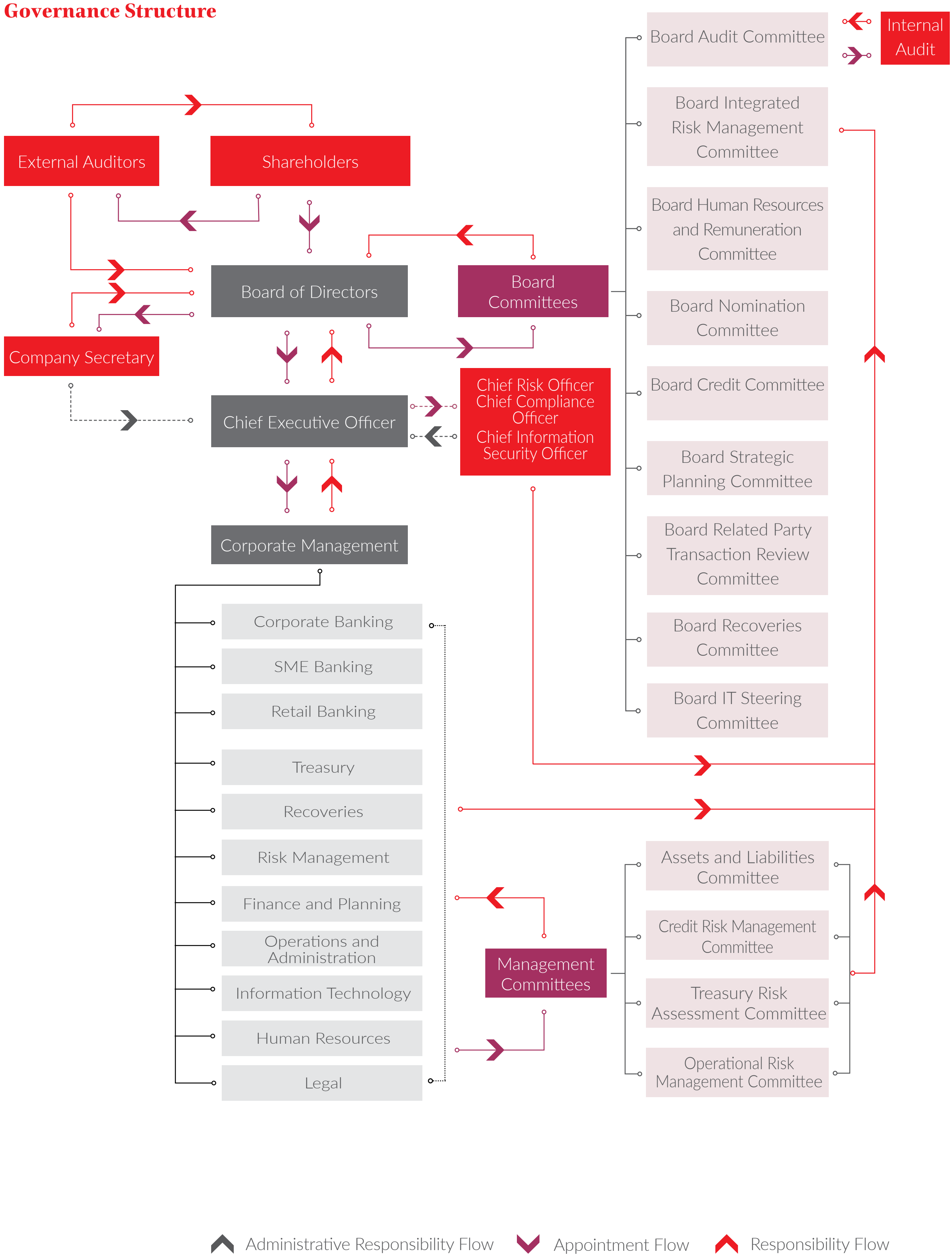
- Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks as amended subsequently
- Banking Act No. 30 of 1988 and Directions, Guidelines and Circulars issued under Banking Act
- Companies Act No. 07 of 2007 and amendments there to
- Code of Best Practice on Related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

Governance

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

Internal

Governance Structure



Corporate Governance Report

Regulatory Framework

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

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

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

Messrs Ernst & Young, our external auditors annually carry out a review of the Bank's compliance with the Corporate Governance Principles specified in Section 3 (1) to 3 (8) of the Banking Act Direction No.11 of 2007 (as amended subsequently) in accordance with the Sri Lanka Standard on Related Services 4400 (SLSRS 4400) and provides a report of factual findings on the extent of Bank's compliance with the said Directions. The external auditors carried out their procedures in respect of the year 2021 as well and have issued a report on their review and factual findings on same.

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

The Auditors were also engaged to carry out a review of the Board's Statement on Internal Controls relating to Financial Reporting System of the Bank based on Sri Lanka Standard on Assurance Engagements 3050 (SLSAE 3050) - Revised and their report is given on page 108 of the Annual Report.

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

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

Section	Principle	Degree of Compliance	Remarks
3 (1)	The Responsibilities of the Board		
3 (1) (i)	The Board has strengthened the safety and soundness of the Bank by ensuring the implementation of the following.		
a.	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	Complied with	The Bank's strategic objectives and corporate values are incorporated in to the Board approved Strategic Plan. These strategic objectives are communicated to relevant staff at regular briefing sessions and discussion meetings and then cascaded down to all levels. The corporate values which are derived from vision and mission statements are communicated to all staff
b.	Approve the overall business strategy of the Bank including the overall risk policy, risk management procedures and mechanisms with measurable goals for at least the next three years.	Complied with	The overall business strategies of the Bank set by the Board in consultation with the Corporate Management are focused on promoting sustainability and profitable growth of the Bank. The Board approved strategic plan containing measurable goals for 2022-2025 period is in place. The business strategy is reviewed on a quarterly basis with updates. The Board approved the annual budget which has been derived from the Bank's strategic plan. Risk Management framework and mechanisms set in line with the Strategic Plan also approved by the Board. Measurable goals have been set and monthly/quarterly performance is measured against the set gaols. These are reviewed on an annual basis and revised on a need basis.

Section	Principle	Degree of Compliance	Remarks
c.	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently	Complied with	A stringent risk management process has been established covering a whole range of risk stemming from the risk appetite of the Bank. Further, appropriate credit, market, operational, liquidity, strategic, information security and compliance strategies have been adopted across the business and other oversight functions ensuring their functions in line with the agreed risk tolerance.
d.	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers..	Complied with	A Board approved Shareholder Communication Policy addressing the concerns of the shareholders is in place. Further a customer complaint handling procedure is in place to address the concerns of borrowers and depositors. The customer charter has been disseminated to all customers contact points of the Bank. The Whistle Blowing Policy and Grievance handling procedures are in place for staff to voice their concerns.
e.	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with	The Bank has a separate Internal Audit Department which directly reports to the Board Audit Committee. The Board Audit Committee relies on the Internal Audit Department to determine the adequacy and the integrity of the Internal Control Systems and Management Information Systems.
f.	Identify and designate Officers Performing Executive Functions of Licensed Commercial Banks as referred to in the Banking Act Determination No. 01 of 2019 on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks as 'Key Management Personnel' of the Bank.	Complied with	'Officers Performing Executive Functions' as referred to in the Banking Act Determination No. 01 of 2019 on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks have been identified as 'Key Management Personnel' of the Bank.
g.	Define the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel	Complied with	The Board shares its responsibilities as a team. Depending on specific skills and expertise they are appointed to different Committees to manage the affairs of the Bank. Defined areas of authority, goals and targets for the Board of Directors have been approved by the Board. The responsibilities and authority of Chief Executive Officer and other Key Management Personnel are also defined.
h.	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel that is consistent with Board policy.	Complied with	Key Management Personnel are present or are called in for discussions at Board Meetings and Board committee meetings as and when the need arises to explain matters relating to their areas. The Affairs of the Key Management Personnel are monitored by the Board.

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
i.	Periodically assess the effectiveness of the Board Directors' own governance practices including: i) the selection, nomination and election of Directors and Key Management Personnel ii) the management of conflicts of interests and iii) the determination of weaknesses and implementation of changes where necessary	Complied with	Nomination Committee recommends to the Board on selection, nomination and election of the Directors and the Board thereafter decides on the matter. Self-assessments of the Directors are attended to by the Directors annually. The Board assesses the effectiveness of its own governance practices on an annual basis through the Board performance evaluation checklist.
j.	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Complied with	A succession plan for 'Key Management Personnel' is in place. This process will be further strengthened in future.
k.	Meet regularly on a needs basis with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with	The Board Committees on Integrated Risk Management, Related Party Transactions Review, Audit, Human Resources & Remuneration, Nomination, Credit, Strategic Planning, Recoveries and IT steering meet regularly and the Key Management Personnel attend these meetings to review policies, establish communication lines and monitor progress towards corporate objectives. The minutes of these Committee meetings are tabled at the Board Meetings. The Members of the Corporate Management team attend Board Meetings by invitation to make presentations on their respective areas as and when required.
l.	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with	The Company Secretary furnishes Directors a set of rules with regard to regulatory directions and requirements on their appointment. They are also briefed about developments in the regulatory environment at Board Meetings to ensure that their knowledge is updated regularly to facilitate effective discharge of their responsibilities. The Chief Compliance Officer submits reports on regulatory requirements to the Board Integrated Risk Management Committee enabling them to identify the regulatory environment. The Chairman, MD/CEO and Directors maintain a good relationship with the regulators with regard to strategic matters of the Bank while the Compliance Officer maintains effective relationship with the regulator with regard to all Compliance matters.
m.	Exercise due diligence in the hiring and oversight of External Auditors	Complied with	The Board Audit Committee is responsible for the hiring and oversight of the External Auditor. The Audit Committee Charter/Terms of Reference approved by the Board specifies these requirements.

Section	Principle	Degree of Compliance	Remarks
3(1)(ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5)of these Directions.	Complied with	The Chairman and the CEO are appointed by the Board. Functions and responsibilities of the Chairman and the CEO have been defined and approved by the Board.
3(1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/ papers shall be avoided as far as possible.	Complied with	16 Board Meetings were held during the year and the regulation has been complied accordingly. Obtaining Board consent through the Circulation of Papers have been avoided as far as possible unless otherwise it was on an urgent matter. The attendance of the Board and Board Committee meetings are given on page 105.
3(1)(iv)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with	Agenda, Minutes and Board Papers are forwarded to the Directors as per the Corporate Governance directive within the stipulated time frame, enabling Directors to submit their views, proposals and observations under any other business at Board Meetings.
3(1)(v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board Meetings, reasonable notice may be given.	Complied with	The Board Meeting Notice and Board Papers are circulated to Directors 7 days prior to the regular Board Meetings providing all Directors an opportunity to attend.
3(1)(vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' Meetings through an alternate Director shall, however, be acceptable as attendance.	Complied with	The Board Meetings have been duly attended by all the Directors as identified in page 105.
3(1)(vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with	The Company Secretary appointed in line with the stipulated regulatory requirement.

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
3(1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with	A Board approved policy in this regard is in place. All Directors have access to the advice and services of the Company Secretary.
3(1)(ix)	The Company Secretary shall maintain the Minutes of Board meetings and such Minutes shall be open for inspection at any reasonable time, with reasonable notice by any Director.	Complied with	The Minutes of the Board Meetings are maintained by the Company Secretary. The Directors can inspect the Board Minutes as and when required.
3(1)(x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The Minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board Meetings. Therefore, the Minutes of a Board Meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations (b) the matters considered by the Board (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations (e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions	Complied with	The Board minutes contain a summary of data and information used by the Board in its deliberations, decisions and Board resolutions. The Board minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations. The understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted too are contained in the Board minutes. The Minutes and the Board Papers are maintained to provide the details stipulated.

Section	Principle	Degree of Compliance	Remarks
3(1)(xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request to seek independent professional advice in appropriate circumstances at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/ their duties to the Bank.	Complied with	An approved Board procedure includes a provision to enable the directors to seek independent professional advice at the Bank's expense.
3(1)(xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or Related Parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board Meeting, where Independent Non-Executive Directors who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board Resolution in relation to which he/she or any of his/her closer elation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board Meeting.	Complied with	The Board procedure includes provisions to manage conflicts of interests of Directors. The Bank follows guidelines issued by the Director Bank Supervision with regard to Related Party Transactions and Directors abstain from voting and taking part in discussions where issues or items pertaining to conflict of interest are being discussed.
3(1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority..	Complied with	The Board has a formal schedule of mandatory matters specifically reserved for the Board, apart from the other Board Papers that are included in every Board meeting.
3(1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	Complied with	The Board is aware of the need to inform the Director of Bank Supervision prior to taking any decision or action, if the Bank is about to become insolvent or about to suspend payments to its depositors and other creditors. If such a situation arises, the Bank will duly inform the Director of Bank Supervision. However, such a situation did not arise during the year 2021. Through the Corporate Governance requirements, the Directors are compelled with the responsibility of informing the Director of Bank Supervision and making necessary public and other disclosures up on the occurrence of such an event.

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
3(1)(xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with	The Bank is in compliance with the Capital Adequacy Ratio requirements stipulated by the Central Bank of Sri Lanka and other prudential grounds as at 31st December 2021.
3(1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction.	Complied with	The Corporate Governance Report is published on pages 78 to 105 of Annual Report.
3(1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied with	Self assessment of each Director is performed annually and filed with the Company Secretary.
3(2)	The Board's Composition		
3(2)(i)	The number of Directors on the Board shall not be less than 7 and not more than13.	Complied with	The Board composition was in compliance with the requirement throughout the year 2021.
3(2)(ii)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied with	The Company Secretary monitors the service period of Directors. There are no Directors serving for more than 9 years as at to date.
3(2)(iii)	An employee of a Bank may be appointed, elected or nominated as a Director of the Bank provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Complied with	The number of Executive Directors has not exceeded the specified threshold of one-third of the total number of directors at any given time during the year 2021.
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 Directors shall not be considered independent if he/she:	Complied with	The Bank complies with the prescribed requirement of Independent Non-Executive Directors throughout the year 2021.
a.	has direct and indirect share holdings of more than 1 percent of the Bank	Complied with	No Director holds more than a 1% stake in ordinary voting share capital of the Bank.
b.	currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3(7) hereof, exceeding 10 percent of the regulatory capital of the Bank.	Complied with	The Bank has not come across any situation as such during the year 2021.
c.	has been employed by the Bank during the two year period immediately preceding the appointment as Director.	Complied with	The Bank has not come across any situation as such during the year 2021.

Section	Principle	Degree of Compliance	Remarks
d.	has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a "Close relation" shall mean the spouse or a financially dependent child.	Complied with	The Bank has not come across any situation as such during the year 2021.
e.	represents a specific stakeholder of the Bank	Complied with	None of the Directors represents a specific stakeholder of the Bank at present.
f.	is an employee or a Director or a material shareholder in a company or business organisation: i) which currently has a transaction with the Bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the Bank, or ii) in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or iii) in which any of the other Directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the Bank	Complied with	None of the Independent Non-Executive Directors meet the criteria of (i), (ii) & (iii) and Independent Non-Executive Directors have been duly identified.
3(2)(v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	Complied with	No requirement has arisen during the year under review.
3(2)(vi)	Non - Executive Directors shall be persons with credible track records and/ or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Complied with	The Board considers Nomination Committee recommendation prior to considering the appointment of Non-Executive Directors.
3(2)(vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non - Executive Directors.	Complied with	Required quorum is complied with.

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
3(2) (viii)	The independent Non – Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non - Executive Directors and Independent Non - Executive Directors in the annual Corporate Governance Report.	Complied with	Disclosed in the Annual Report on page 105 "Directors Composition During the Year - 2021".
3(2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied with	The Board and the Nomination Committee has a procedure in place.
3(2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	Complied with	Three Directors were appointed to fill casual vacancies during the period until the Annual General Meeting and will be subject to election by shareholders at the Annual General Meeting to be held in 2022.
3(2) (xi)	If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders'	Complied with	All Director resignations and removals are duly communicated to the relevant regulatory authorities as per the Colombo Stock Exchange regulations.
3(2)(xii)	A Director or an employee of a Bank shall not be appointed, elected or nominated as a director of another Bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank	Complied with	None of the present Directors of the Bank act as a Director of another Bank. The Directors inform the Board if the Director concerned is appointed, elected or nominated as a Director of another Bank.
3(3)	Criteria to Assess the Fitness and Propriety of Directors		
3(3)(i)	The age of a person who serves as Director shall not exceed 70 years.	Complied with	There are no Directors who are over 70 years of age. The Company Secretary maintains the records of the Directors.
3(3)(ii)	A person shall not hold office as a Director of more than 20 companies/ entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied with	As per the declarations provided by the Directors, none of the Directors hold Directorships in more than 20 companies.

Section	Principle	Degree of Compliance	Remarks
3(3)(iii)	A Director or a Chief Executive Officer of a licensed bank operating in Sri Lanka appointed as a Director or a Chief Executive Officer of another licensed bank operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka.	Complied with	There were no Director or CEO appointed from another bank during the year 2021.
3(4)	Management Functions Delegated by the Board		
3(4)(i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied with	All delegations have been done by the Board after due consideration.
3(4)(ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with	All delegations are made in a manner that would not hinder or reduce the Board's ability to discharge its functions.
3(4)(iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with	The Board periodically reviews and approves the delegation arrangements in place and ensures that the extent of delegation addresses the needs of the Bank whilst enabling the Board to discharge their functions effectively.
3(5)	The Chairman and Chief Executive Officer		
3(5)(i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied with	The roles of Chairman and Chief Executive Officer are separated and not performed by the same individual.
3(5)(ii)	The Chairman shall be a Non – Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Complied with	Since the Chairman is only a Non-Executive Director, Mr. Mohan Abeynaike, Non-Executive, Independent Director continued as the 'Senior Director'. Required Terms of Reference have been approved by the Board.
3(5)(iii)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship including financial, business, family or other material/relevant relationship(s), if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied with	The Directors sign a declaration to this effect and there are no relationships reported.

Corporate Governance Report

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

Section	Principle	Degree of Compliance	Remarks
3(6)	Board Appointed Committees		
3(6)(i)	The Bank shall have at least four Board Committees as set out in Directions 3(6) (ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each Committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc. under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Complied with	The Board has established Committees for Audit, Nomination, Human Resources &Remuneration, Integrated Risk Management, Credit, Strategic Planning, Related Party Transactions Review, Recoveries and IT Steering. All Board Committees submit minutes to the Board. Each Committee report is published in the Annual Report on pages 109 to 120.
3(6)(ii)	Audit Committee		
a.	The Chairman of the Committee shall be an Independent Non - Executive Director who possesses qualifications and experience in accountancy and/ or audit.	Complied with	The Chairman of the Audit Committee is a Non-Executive, Independent Director and a Fellow of the Institute of Chartered Accountants of Sri Lanka whose qualifications and experience are disclosed on page 20 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.
c.	The Committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditors for audit services to be provided in compliance with the relevant statutes (ii) the implementation of the Central Bank of Sri Lanka (CBSL) guidelines issued to Auditors from time to time (iii) the application of the relevant accounting standards and (iv) the service period, audit fee and any resignation or dismissal of the Auditors; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied with	The Audit Committee has made its recommendations on the following; (i) the appointment of the External Auditors and services to be provided are in compliance with the relevant statutes (ii) the implementation of the CBSL guidelines issued to Auditors from time to time (iii) the application of the relevant accounting standards (iv) the service period, audit fee and any resignation or dismissal of the Auditors. Engagement Audit Partner was rotated since March 2019. Further, the Committee ensures that the service period of the engagement of the External Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the Audit before the expiry of three years from the date of the completion of the previous term.

Corporate Governance Report

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

Section	Principle	Degree of Compliance	Remarks
f.	The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including (i) an assessment of the Bank's compliance with the relevant Directions in relation to Corporate Governance and the management's internal controls over financial reporting (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations and (iii) the co-ordination between firms where more than one audit firm is involved	Complied with	The nature and scope of the audit and related engagements are discussed at the Board Audit Committee meetings.
g.	The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's annual report and accounts and quarterly reports before submission to the Board, the committee shall focus particularly on (i) major judgmental areas (ii) any changes in accounting policies and practices (iii) significant adjustments arising from the audit; (iv) the going concern assumption and (v) the compliance with relevant Accounting Standards and other legal requirements	Complied with	The Audit committee has reviewed the Financial information of the bank, in order to monitor the integrity of the Annual and Quarterly Financial Statements prepared with disclosures and the significant financial reporting judgements contained therein. There view focuses on the following; - Major judgemental areas - Any changes in accounting policies and practices - Significant adjustments arising from the audit - Appropriateness of the going concern assumption - Compliance with relevant accounting standards and legal requirements The committee makes their recommendations to the Board on the above on a quarterly basis.
h.	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditors' may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied with	The Committee has met with the External Auditors and discussed related matters in the absence of Key Management Personnel. The related discussion minutes are recorded and maintained independently by the Company Secretary.

Corporate Governance Report

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

Section	Principle	Degree of Compliance	Remarks
k.	The Committee shall consider the major findings of internal investigations and management's responses thereto.	Complied with	Major findings of internal investigations and management's responses thereto are considered by the Committee and also minuted.
l.	The Chief Financial Officer, the Chief Internal Auditors and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present	Complied with	The Chief Financial Officer, the Deputy General Manager- Internal Audit and representatives of External Auditors attends monthly committee meetings. The CEO, Corporate and Senior Management personnel attend meeting upon invitation. The Committee met with External Auditors independently without the executive directors/management being present on two occasions.
m.	The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with	The Board Audit committee has; (i) explicit authority to investigate into any matter within its terms of reference (ii) the resources which it needs to do so (iii) full access to information and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.
n.	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with	The Audit Committee met 12 times during the year and the committee's conclusions are recorded in the minutes.
o.	The Board shall disclose in an informative way, (i) details of the activities of the Audit Committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings.	Complied with	(i) The details of the Committee are disclosed in the Annual Report, on pages 109 to 111. (ii) Details of attendance by individual Directors on page 105 of the Annual Report
p.	The Secretary of the Committee shall record and keep detailed Minutes of the Committee Meetings.	Complied with	The Secretary of the Committee is the Deputy General Manager- Internal Audit and records and keeps Minutes of the Committee Meetings.

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
q.	The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditors.	Complied with	The Whistle Blowing Policy was reviewed and approved by the Committee. The Audit Committee acts as the key representative body for overseeing the bank's relationship with External Auditors.
3(6)(iii)	Human Resources and Remuneration Committee		
a.	The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank.	Complied with	The key functions of the Human Resources and Remuneration Committee are disclosed in Annual Report Page 113 under 'Board Human Resources and Remuneration Committee Report'.
b.	The Committee shall set goals and targets for the Directors, Chief Executive Officer and the Key Management Personnel.	Complied with	The goals and targets for the Directors, Chief Executive Officer and Key Management Personnel are in place.
c.	The Committee shall evaluate the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with	The Committee evaluates the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determines the basis for revising remuneration, benefits and other payments of performance-based incentives.
d.	The Chief Executive Officer shall be present at all meetings of the Committee, except when matters relating to the Chief Executive Officer are being discussed.	Complied with	The Chief Executive Officer attends all meetings and he is excused when matters relating to him is being discussed.
3(6)(iv)	Nomination Committee		
a.	The Committee shall implement a procedure to select/appoint new Directors, Chief Executive Officer and Key Management Personnel.	Complied with	Procedures for the selection/appointment of the Directors are in place. Procedures for the selection/appointment of the Chief Executive Officer and Key Management Personnel are also in place.
b.	The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied with	The Committee considers and recommends the re-election of current Directors to the Board.

Section	Principle	Degree of Compliance	Remarks
c.	The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Chief Executive Officer and the Key Management positions.	Complied with	The duly approved eligibility criteria for the selection (appointment or promotion) to the position of CEO and Key Management positions are in place.
d.	The Committee shall ensure that Directors, Chief Executive Officer and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied with	The Directors' and Chief Executive Officer's affidavits are tabled at the Nomination Committee for their recommendation & tabled at the Board meeting for approval prior to forwarding to Central Bank of Sri Lanka for approval to ensure that the Directors are fit and proper persons to hold office. The Nomination Committee ensures that all KMPs are fit and proper persons to hold office in line with the set criteria prior to appointment and necessary affidavits are forwarded to CBSL for approval.
e.	The Committee shall consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Complied with	Succession arrangements for retiring Board of Directors are considered as and when required. New requirements (additional or new expertise) for Key Management Personnel positions are considered and recommended by the Committee. Succession arrangements for Key Management Personnel are in place. This process will be further strengthened in future.
f.	The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The Chief Executive Officer may be present at meetings by invitation.	Complied with	The Committee is Chaired by a Non-Executive, Independent Director and the majority of the committee members are independent. The Chief Executive Officer attends meetings by invitation.
3(6)(v)	Integrated Risk Management Committee (IRMC)		
a.	The Committee shall consist of at least three Non - Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied with	The Committee consists of three Non-Executive Directors appointed by the Board, the Chief Executive Officer, the Chief Risk Officer and the Chief Compliance Officer. The Committee is supported by Senior Manger II - Credit Risk, Senior Manager-Treasury Middle Office, Manager-Operational Risk & Integrated Risk and Chief Information Security Officer. The Committee invites Key Management Personnel for participation at the meetings depending on the subject matters in the agenda.

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
b.	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and group basis.	Complied with	Continuous assessments and monitoring are being carried out on credit, market, liquidity, operational, information security and strategic risks and other contingencies based on pre determined risk indicators and goals/limits, reports are submitted to the Committee for deliberations and corrective actions if required
c.	The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset and Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with	The Committee reviews reports and minutes submitted by the management committees such as Credit Risk Management Committee, Assets & Liabilities Committee, Treasury Risk Assessment Committee, and Operational Risk Management Committee against pre determined quantitative and qualitative risk limits.
d.	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied with	Risk indicators are reviewed against the risk goals and regulatory limits with adequate deliberations during the Committee meetings and corrective actions are initiated for any deviations.
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with	The Committee had four meetings during the year and deliberations were made on whole risk spectrum encountered by the Bank.
f.	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied with	The Committee takes appropriate actions against the officers responsible through Human Resources Department for any failures to identify and monitor specific risks in managing the business of the Bank. No such instances reported during the period under review.
g.	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with	Risk assessment report along with the minutes of the each Committee meeting is placed before the Board at the Board Meeting immediately following the Committee meeting for deliberations and concurrence.

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

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
3(7)(ii) &(iii) a.	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; 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	Complied with	A formal policy to enhance the transparency of Related Party Transactions is put in place by Board of Directors. Steps have been taken by the Board to avoid any conflict of interest that may arise when transacting with 'Related Parties'. Further, the Board ensures that no Related Party benefits from favourable treatment. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to the similar transactions between the Bank and its unrelated customers. The Board Related Party Transaction Review Committee reviews Related Party Transactions reported to the committee.
b.	Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counter party.		
c.	Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions that extend beyond the terms granted in the normal course of business undertaken with unrelated parties.		
d.	Providing services to or receiving services from a Related-Party without an evaluation procedure.		

Section	Principle	Degree of Compliance	Remarks
e.	Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with Related Parties, except as required for the performance of legitimate duties and functions.		
3(7)(iv)	The Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied with	Regulatory requirements for Related Party Transactions are properly stipulated in the Policy Document for Related Party Transactions. This policy elaborates the approved securities and limits for such related parties. Any accommodation granted to Related Party is sanctioned by the Board of Directors with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation.
3(7)(v) a. b. c. d.	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. 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. 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. 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.	Complied with	The Bank follows directions / guidelines issued by all regulatory bodies for Related Party Transactions.

Corporate Governance Report

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

<table>
<tr><th>Section</th><th>Principle</th><th>Degree of Compliance</th><th>Remarks</th></tr>
<tr><td>b.</td><td>A report by the Board on the Bank's internal control mechanism that confirms that the Financial Reporting System has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements</td><td>Complied with</td><td>The Directors' Statement on Internal Controls over Financial Reporting is included on pages 106 to 107.</td></tr>
<tr><td>c.</td><td>The external Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after 31st December 2008.</td><td>Complied with</td><td>Assurance Report by auditors under Sri Lanka Standard on Assurance Engagements (SLSAE 3050) – Assurance Reports for Banks on Directors' Statement on Internal Controls has been obtained and included in page 108.</td></tr>
<tr><td>d.</td><td>Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank.</td><td>Complied with</td><td>Details of the Directors are given on pages 20 & 21 under profiles of the Directors.

The aggregate value of Directors' transactions with the Bank has been disclosed in Note No. 43.4 to the Financial Statements on page 225.

The aggregate value of the remuneration paid (salaries, fees and benefits) to the Board of Directors (including MD/CEO) is disclosed in Note No. 43.3 to the Financial Statements on page 225.</td></tr>
<tr><td>e.</td><td>Total net accommodation as defined in 3(7) (iii) granted to each category of Related Parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.</td><td>Complied with</td><td><table>
<tr><th>Category of Related Party Transaction</th><th>Rs. Mn</th><th>%</th></tr>
<tr><td>Directors and Close Family Members</td><td>1.60</td><td>0.01</td></tr>
<tr><td>KMP and Close Family Members</td><td>66.32</td><td>0.33</td></tr>
<tr><td>Entities Controlled by Directors, Shareholder owing a Material Interest and Close Family Members</td><td>8,367.00</td><td>42.17</td></tr>
</table></td></tr>
<tr><td>f.</td><td>The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.</td><td>Complied with</td><td>The aggregate values of remuneration paid to Key Management Personnel (as per CBSL guidelines) during the year are as follows;

Short term Benefits - Rs. 187.85 Million.
Retirement Benefits - Rs. 14.67 Million.

The aggregate value of transactions by Key Management Personnel with the Bank as at the year end are as follows;

Loans, Advances and Credit Card Balances - Rs. 66.20 Million.
Deposits - Rs. 143.28 Million.</td></tr>
</table>

Corporate Governance Report

Section	Principle	Degree of Compliance	Remarks
g.	The External Auditor's certification of the compliance with these Directions in the Annual Corporate Governance Reports.	Complied with	The Bank has obtained the Report of Factual Findings from of the External Auditors on compliance with these Directions on Corporate Governance and relevant disclosures are included on page 80 of the Annual Report under 'Corporate Governance Report'.
h.	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied with	A statement of Directors' Responsibility for Financial Reporting is given on page 126 and page 128 clearly sets out the details regarding compliance with prudential requirements, regulations, laws and internal controls. There were no instances of material non-compliance to report on corrective action taken during the year.
i.	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Complied with	There were no significant supervisory concerns on lapses in Bank's Risk Management or non compliance with this Direction that have been pointed out by the Director of Bank Supervision and requested by the Monetary Board to be disclosed to the public.

Attendance of the Directors During the Year - 2021

Name of Director	Board Meetings		Board Audit Committee		Board Credit Committee		Board Integrated Risk Management Committee		Board Human Resources & Remuneration Committee		Board Nomination Committee		Board Strategic Planning Committee		Board Related Party Transactions Review Committee		Board Recoveries Committee		Board IT Steering Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
S B Rangamuwa	16	16	5	5	14	14	3	3	2	2	-	-	3	3	4	4	11	11	3	3
Aravinda Perera	16	16	-	-	14	14	-	-	-	-	10	10	3	3	-	-	11	11	3	3
Mohan Abeynaike	16	16	12	12	-	-	1	1	3	3	10	10	3	3	4	4	-	-	3	3
Toyohiko Murakami	16	16	12	12	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nihal Kekulawala	16	16	12	12	7	7	4	4	3	3	1	1	3	3	1	1	-	-	-	-
B D A Perera	11	10	7	7	-	-	-	-	-	-	2	2	-	-	-	-	6	5	2	2
Nimal Tillekeratne	16	16	12	12	14	14	4	4	3	3	9	9	3	3	4	4	11	9	3	3
Dimuth Prasanna	6	6	-	-	5	5	1	1	1	1	3	3	-	-	-	-	4	4	-	-
Takashi Igarashi	11	10	-	-	-	-	3	3	-	-	4	4	-	-	3	3	-	-	-	-

Directors Composition During the Year - 2021

Name of the Director	Category
S B Rangamuwa	Non-Executive, Non Independent Director
Aravinda Perera	Non-Executive, Non Independent Director
Mohan Abeynaike	Non-Executive, Independent Director
Toyohiko Murakami	Non-Executive, Non Independent Director
Nihal Kekulawala	Non-Executive, Independent Director
B D A Perera	Non-Executive, Independent Director
Nimal Tillekeratne	Managing Director/Chief Executive Officer
Dimuth Prasanna	Non-Executive, Non Independent Director (Completed 9 years and retired in May, 2021)
Takashi Igarashi	Non-Executive, Independent Director (Completed 9 years and retired in October, 2021)

Directors' Statement on Internal Controls Over Financial Reporting

Responsibility

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

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

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

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

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

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

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

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

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

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

- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, Regulatory Authorities and the Management and evaluates the adequacy and effectiveness of the risk management and internal control system. They also review the internal audit function with particular emphasis on the scope of audits and the quality of the same. Board Audit Committee further reviews the status of implementation of audit recommendations and rectification of audit findings periodically to ensure all the issues are being timely addressed by the Management. The minutes of the Board Audit Committee meetings are forwarded to the Board periodically. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on pages 109 to 111.

- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. During the Covid-19 period, process owners have considered the control measures adopted by the Bank where the Bank had to make changes to its operating environment primarily to accommodate the Central Bank of Sri Lanka directions on moratoriums to affected customers/areas. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an on-going basis.

- The Bank adopted SLFRS 9 – "Financial Instruments" in 2018 which became applicable for financial reporting periods beginning on or after 01st January 2018. During the year the Bank continued to refine the statistical models used in the computations and the data extraction procedures pertaining to the calculations performed in respect of SLFRS 9. Since the adoption of this standard, a progressive improvement on processes to comply with new requirements of classification, estimation of expected credit losses and disclosure were made whilst, further strengthening of processes will continue to take place pertaining to expected credit loss estimation and financial statement disclosures. In doing so the Bank has considered the inputs provided by its External Auditors. Further inputs resulting from the observations of the reviews made by Internal Auditors were also used in strengthening the controls associated with the process adopted by the Bank.

- Adequate training and awareness sessions have been conducted for the Board and the Senior Management with regard to SLFRS 9. Further, the Board ensures that processes and controls are put in place for use of management information systems and validation of information extracted to comply with SLFRS 9.

- The comments made by the External Auditors in connection with the 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 2021 in connection with the internal control system over financial reporting will be dealt with in the future.

Confirmation

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

Review of the Statement by External Auditors

The External Auditors, Messrs Ernst & Young, have reviewed the above Directors' Statement on Internal Controls over Financial Reporting included in the Annual Report of the Bank for the year ended 31st December 2021 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal controls over financial reporting of the Bank. Their Report on the Statement of Internal Controls over Financial Reporting is given on page 108 of this Annual Report.

By Order of the Board;

Mohan Abeynaike
Chairman
Board Audit Committee

S B Rangamuwa
Chairman

Nimal Tilekeratne
Managing Director/Chief Executive Officer

Colombo, Sri Lanka
18th February 2022

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

Building a better working world

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

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

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

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

We were engaged by the Board of Directors of Pan Asia Banking Corporation PLC ("the Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("the Statement") included in page 106 and 107 of the Annual Report for the year ended 31st December 2021.

Management's Responsibility

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

Our Independence and Quality Control

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

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

Our Responsibilities and Compliance with SLSAE 3050 (Revised)

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

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

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

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

Summary of Work Performed

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

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

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

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

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

Our Conclusion

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

18 February 2022
Colombo, Sri Lanka

Board Audit Committee Report

Composition of the Audit Committee

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

Mohan Abeynaike
Chairman of the Committee
Non-Executive, Independent Director

Toyohiko Murakami
Non-Executive, Non-Independent Director

Nihal Kekulawala
Non-Executive, Independent Director

B D A Perera
Non-Executive, Independent Director

The Committee wishes to place on record of its appreciation to Mr. S B Rangamuwa , who resigned from the committee on 25th May 2021 for his contribution to its deliberations while he served as a member.

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

Role of the Committee

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

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

The Committee is empowered by the Board to:

- Monitor the integrity of the financial statements and review of significant reporting judgments contained therein to comply with Sri Lanka Accounting Standards.
- Review the Interim and Annual Financial Statements, Internal Controls and Risk Management measures.
- Review the Bank's compliance with legal and regulatory requirements.
- Monitor and review the effectiveness of the internal audit function.
- Review and assess the effectiveness of the Bank's internal control system.
- Make recommendations to the Board about the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
- Review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process.
- Review the engagement of external auditors' for the provision of non-audit services.
- Ensure that the Bank's policies are firmly committed to the highest standards of good Corporate Governance Practices and operations conform to the highest ethical standards, in the best interest of all stakeholders.

Secretary

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

Meetings

The Committee held 12 meetings during the period under review. During the Covid-19 pandemic period the Committee held virtual meetings.

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

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

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

Activities

The Committee carried out the following activities.

Financial Statements

The Committee reviewed;

- The effectiveness of the financial reporting system in place to ensure that information provided to the stakeholders is reliable and is in strict adherence and compliance with the requirements of Sri Lanka Accounting Standards (SLFRS/LKAS) and disclosure requirements.
- The Quarterly and Annual Financial Statements of the Bank prior to approval by the Board.
- Considering the SLFRS 9 implementation the Committee discussed with the External Auditors to identify the key impact areas and the estimated impacts on the Bank's financial statements on an on-going basis.
- Assesses the future impacts of the capital requirements and remedial measures to be taken.
- The Committee discussed with External Auditors, MD/CEO and CFO the possible implications and the sectors which could be impacted by the new Central Bank Regulations on Moratoriums on the financial reporting.
- Assessed changes to the tax regulations etc.

Regulatory Compliance

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

The Committee continuously emphasised on upholding ethical values of the staff and has reviewed and revised the

Board Audit Committee Report

Whistle Blowers Policy encouraging staff to report any suspected wrong doings in confidence to the Committee.

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

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

Internal Audit

During the year under review, the Committee reviewed the independence, objectivity and performance of the Internal Audit Department and established a process for periodic assessment of the internal control systems.

The Annual Audit Plan for the year was prepared based on a Risk Based Planning methodology for risk assessment of auditable areas. The Committee regularly reviewed and monitored the internal audit coverage of the annual audit plan and with the outbreak of Covid-19 Global Pandemic that presented significant challenges to the Bank in ensuring the functioning of the existing control environment with the movement restrictions due to the lockdown. The Bank's Internal Audit strengthened its continuous monitoring activities using Computer Assisting Audit Techniques, increasing proactive monitoring and review. The results of these were shared with the Management and Board Audit Committee at monthly meeting to strengthen the control environment of the Bank.

Special working arrangements were made for internal audit staff to work from home and to perform online audit reviews/ assignments. Further, online audits are conducted for branches during the period under which inter provincial or countrywide travel restrictions being imposed by the government due to Covid-19 pandemic situation. Further, certain department audits were also conducted remotely due to restrictions of inter departmental staff movements to maintain business and other support services uninterrupted during the pandemic.

Accordingly, during this period internal audit conducted verifications over the Bank's internal control environment analysing the financial transactional trends to identify risk trigger points for immediate management attention and also discussed at Board Audit Committee meetings.

IS Auditors of the Bank were involved in different systems implementation & IT infrastructure projects that were implemented by the Bank. During these assignments special emphasis was given to improve security and general controls while ensuring minimum business disruptions to the process. IS Auditors in their work also assess the risks of cyber security and other security challenges arising from the current operating model of the Bank and the latest trends in the technology.

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

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

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

The Committee reviewed the performance appraisal of the DGM-Internal Audit and other senior staff of the Internal Audit Department.

Periodically, the Committee assessed the training & development and resource availability within the Internal Audit Department to fulfil the audit plan.

External Audit

The Committee met with M/s Ernst & Young and discussed all relevant matters arising from the interim and final audits, discussed the audit fee, scope, approach and methodology to be adopted and the Management Letter of the External Auditors and the responses of the Management thereto.

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

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

The Committee further followed up on the rectification actions taken by the Management in improving the financial reporting based on the Management Letter of 2019 and 2020. The Committee reviewed the non-audit services provided by the auditors to ensure that such services were not falling within the restricted services or provision of such service will not impair the External Auditors' independence and objectivity.

The Committee reviewed and ensured that the lead audit partner was rotated every 5 years following Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka.

The Audit Committee has evaluated the independence and performance of the External Auditors and has recommended to the Board of Directors that M/s Ernst & Young, Chartered Accountants, be reappointed as the auditors of the Bank for the financial year ending 31st December 2022, subject to the approval of the shareholders at the Annual General Meeting.

Training and Development of Committee Members

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

Conclusion

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

On behalf of the Board Audit Committee;

Mohan Abeynaike
Chairman
Board Audit Committee

Colombo, Sri Lanka
18th February 2022

Board Integrated Risk Management Committee Report

Composition of the Committee

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

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

S B Rangamuwa
Non-Executive, Non-Independent Director

Mohan Abeynaike
Non-Executive, Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive Officer

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

Responsibilities

Overall risk management function is assigned to the Board Integrated Risk Management Committee which is an independent Committee as per the corporate governance rules and guidelines on Integrated Risk Management Framework issued by the Central Bank of Sri Lanka. The main scope of the Committee is to review and monitor overall risk management policy framework of the Bank. It regularly reviews the key risk indicators under credit, market, operational, compliance, reputational, strategic, baseline security, legal and other contingencies and monitors the risk goals and regulatory limits under each of these risk indicators. Further, the Committee recommends risk management directives for the approval of the Board of Directors.

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

Secretary

The Manager Operational & Integrated Risk functions as the Secretary to the Committee.

Meetings

The Committee had four meetings during the year. The attendance of committee meeting is given on page 105 of the Annual Report.

Functions of the Committee

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

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

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

On behalf of the Board Integrated Risk Management Committee;

Nihal Kekulawala
Chairman
Board Integrated Risk Management Committee

Colombo, Sri Lanka
18th February 2022

Board Human Resources and Remuneration Committee Report

Composition of the Committee

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

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

Mohan Abeynaike
Non–Executive, Independent Director

Nihal Kekulawala
Non–Executive, Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive Officer

Profiles of the members are given on Pages 20 & 21 of the Annual Report.

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

Secretary

The Company Secretary functions as the Secretary to the Committee.

Meetings

The Committee held 3 meetings during the year. Attendance of the Committee members at each of these meetings are given on Page 105 of the Annual Report.

Functions and Responsibilities

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

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

On behalf of the Board Human Resources and Remuneration Committee;

S B Rangamuwa
Chairman
Board Human Resources and Remuneration Committee

Colombo, Sri Lanka
18th February 2022

Board Nomination Committee Report

Composition of the Committee

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

Mohan Abeynaike
Chairman of the Committee
Non-Executive, Independent Director

Aravinda Perera
Non-Executive, Non-Independent Director

B D A Perera
Non-Executive, Independent Director

Profiles of the members are given on Pages 20 & 21 of the Annual Report.

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

Secretary

The Company Secretary functions as the Secretary to the Committee.

Meetings

During the year 2021, the Committee held 10 meetings. Attendance of the Committee members at each of these meetings is given on Page 105 of the Annual Report. The Committee reports directly to the Board of Directors.

Functions and Responsibilities

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

- The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.
- The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.
- The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and key management positions.
- The Committee shall ensure that Directors, CEO and Key Management Personnel and officers in the immediate two layers below the level of CEO in the organisational structure are fit and proper persons to hold office as specified in the criteria as set out in the Statutes.
- The Committee shall consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel.
- The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. Minimum number of Directors in the Committee will be 3 and the maximum 5.
- All promotees of Senior Manager & above to be interviewed by the Nomination Committee, prior to the promotions.
- All external recruits of Manager & above to be interviewed by the Nomination Committee, prior to recruiting.

On behalf of the Board Nomination Committee;

Mohan Abeynaike
Chairman
Board Nomination Committee

Colombo, Sri Lanka
18th February 2022

Board Credit Committee Report

Composition of the Committee

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

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

Aravinda Perera
Non-Executive, Non-Independent Director

Nihal Kekulawala
Non-Executive, Independent Director

B D A Perera
Non-Executive, Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive Officer

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

Responsibilities

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

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

Secretary

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

Meetings

The Committee had 14 meetings during the year and minutes of each meeting were duly circulated among the members of the Committee and management personnel for follow up actions and disbursement of credit as per the conditions stipulated by the Committee. All credit approvals by the Committee were subject to detailed deliberations among the members of the Committee.

Functions of the Committee

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

- Review and sanction credit proposals which require the approval of the Committee as per the delegated lending authorities within the Bank.
- Review changes to the credit policy initiated by the Management of the Bank and approve them or recommend them for the approval of the Board of Directors.
- Ensure compliance of lending activities with approved credit policies, statutory and regulatory requirements and guidelines.
- Review the credit portfolio through regular reports on new facilities granted, margin trading and share backed advances, advances to special segments, advances under special lending products, exposure to pawning and gold loans, watch listed accounts and monthly non-performing advances report.
- Define credit approval framework and assign delegated approval limits for lending as per the credit policy of the Bank.
- Review and recommend credit proposals with regard to Related Parties to the Board Related Party Transaction Review Committee or Board of Directors for which the Board approval is required as per the Bank's credit policy and regulatory guidelines.
- Ensure credit risk exposures are kept within the risk appetite in order to maximise the Bank's risk adjusted rate of return.
- Monitor the Bank's credit portfolio quality, review periodic credit portfolio reports and assess the performance of the lending book on an on going basis.
- Review new lending products from a credit risk management perspective with appropriate controls to maintain the quality of the portfolio.
- Sanction papers via circulation depending on the urgency of the subject matters.
- Review high risk exposures periodically and take corrective action keeping them within the risk tolerance of the Bank.
- Ensure adequate level of credit growth without compromising the credit quality of the lending portfolio.

The Committee monitors the adherence of Board Approved Credit Policy, regulatory guidelines and directives when accommodating credit facilities and managing the lending book.

On behalf of the Board Credit Committee;

S B Rangamuwa
Chairman
Board Credit Committee

Colombo, Sri Lanka
18th February 2022

Board Strategic Planning Committee Report

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

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

Composition of the Committee

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

Mohan Abeynaike
Chairman of the Committee
Non-Executive, Independent Director

Nihal Kekulawala
Non-Executive, Independent Director

Aravinda Perera
Non-Executive, Non-Independent Director

S B Rangamuwa
Non-Executive, Non-Independent Director

Managing Director/Chief Executive Officer and members of the Corporate and Senior Management attend meetings by invitation.

Secretary

Chief Financial Officer acts as the Secretary to the Committee.

Meetings

The Committee met 3 times during the year. The attendance of the committee members at each of these meetings are given on page 105 of the Annual Report. Minutes of the committee meetings are circulated to the committee members by the Secretary and the confirmed minutes are submitted to the Board of Directors for concurrence.

Functions and Responsibilities

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

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

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

   c) Monitoring and control: Ensure post implementation reviews of the strategic initiatives are carried out on timely basis in comparison to Key Performance Indicators (KPIs) and provide advice on further improvements to strategies and alternative course of action on non-achievement of KPIs.

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

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

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

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

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

4) Reviewing the appropriateness of current Vision, Mission and Corporate Values of the Bank.

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

6) Reviewing the adequacy and composition of the Bank's capital structure in the context of the growth targets and make recommendations to the Board of Directors.

Performance

The Committee reviewed the Bank's performance against the strategic plan and the budget for the year 2021 and discussed reasons for substantial deviations and directed the Management for remedial actions.

Annual Budget for the year 2022 was discussed and reviewed in detail and changes to be incorporated were recommended before submitting to the Board of Directors for their approval. The Committee reviewed and took note of the Bank's capital structure against its growth targets and recommended to the Board the need for capital infusions to stay the course of the growth set out in the strategic plan and the budget as well as to be in line with minimum capital requirements imposed by the regulator.

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

On behalf of the Board Strategic Planning Committee;

Mohan Abeynaike
Chairman
Board Strategic Planning Committee

Colombo, Sri Lanka
18th February 2022

Board Related Party Transaction Review Committee Report

The Bank constituted Board Related Party Transaction Review Committee to assist the Board to review all related party transactions performed by the Bank in compliance with the section 9 of the Colombo Stock Exchange listing rules. The Committee constitutes of majority of Independent Directors of the Board.

Composition of the Committee

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

Mohan Abeynaike
Chairman of the Committee
Non-Executive, Independent Director

Nihal Kekulawala
Non–Executive, Independent Director

S B Rangamuwa
Non-Executive, Non-Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive Officer

The Committee invites Key Management Personnel and other members of the senior management on need basis to get further clarifications on subject matters.

Secretary

Chief Compliance Officer functions as the secretary to the Committee.

Meetings

During the year 2021 the Committee held 4 meetings covering the four quarters. All matters stemming from the respective departments with regard to related party transactions have been reviewed and discussed with the participation of relevant heads of the departments. Minutes of the meetings have been circulated among committee members and the confirmed minutes have been submitted to the Board of Directors for necessary action.

Functions and Responsibilities

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

The mandate of the Committee includes inter-alia the following;

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

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

On behalf of the Board Related Party Transactions Review Committee;

Mohan Abeynaike
Chairman
Board Related Party Transaction Review Committee

Colombo, Sri Lanka
18th February 2022

Board Recoveries Committee Report

Composition of the Committee

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

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

Aravinda Perera
Non-Executive, Non-Independent Director

B D A Perera
Non-Executive, Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive Officer

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

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

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

Responsibilities

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

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

The following reports are mainly discussed at the meetings;

1. Non-Performing Loans Management and Post Disbursement Monitoring.
2. Margin Trading Status Report.
3. Watch list of accounts.
4. Statement of Non-Performing balances.

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

Secretary

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

Meetings

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

Functions of the Committee

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

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

On behalf of the Board Recoveries Committee;

S B Rangamuwa
Chairman
Board Recoveries Committee

Colombo, Sri Lanka
18th February 2022

Board Information Technology Steering Committee Report

Composition of the Committee

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

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

S B Rangamuwa
Non–Executive, Non-Independent Director

Mohan Abeynaike
Non–Executive, Independent Director

B D A Perera
Non–Executive, Independent Director

Nimal Tillekeratne
Managing Director/Chief Executive Officer

Profiles of the members are given on Pages 20 & 21 of the Annual Report.

Secretary

The Company Secretary functions as the Secretary to the Committee.

Following officers are invited for the meetings.

- Deputy General Manager – IT
- Senior Manager II - System Development and IT Projects
- Senior Manager I – IT Infrastructure
- Any other officials determined by the Committee

Meetings

The Board Information Technology Steering Committee meetings are conducted quarterly or more frequently if necessary. During the year 2021, the Committee held 3 meetings. Attendance of the Committee members at the meetings are on Page 105 of the Annual Report. The Committee reports directly to the Board of Directors.

Purpose

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

Scope

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

If required the Board Information Technology Steering Committee seeks independent advice on matters which assists discharging its responsibilities.

On behalf of the Board Information Technology Steering Committee;

Aravinda Perera
Chairman
Board Information Technology Steering Committee

Colombo, Sri Lanka
18th February 2022

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 2021.

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

General

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

The Report of the Board of Directors on the Affairs of the Bank and the Financial Statements were approved by the Board of Directors on the 18th of February 2022.

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;

	2021 Rs. 000	2020 Rs. 000
Profit before Tax	4,033,653	2,838,166
Income Tax Expense	(958,295)	(789,998)
Profit for the Year	3,075,358	2,048,168
Other Comprehensive Income	27,671	(6,783)
Retained Profit Brought Forward	10.179.069	8,231,159
Transfer to Reserve Fund	(153,768)	(102,408)
Realisation of Revaluation Reserve	9,567	8,933
Un-appropriated Profit to be Carried Forward	13,137,897	10,179,069

Financial Statements

The Financial Statements of the Bank are given on pages 136 to 230 of this Annual Report.

Income

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

	2021 Rs. 000	2020 Rs. 000
Gross Income	21,103,534	20,881,425

Shareholders' Funds and Reserves

The Bank's Total Reserves as at 31st December 2021 stood at Rs.14,939,255 (000'). This comprises Statutory Reserve Fund of Rs.794,893 (000') Revaluation Reserve of Rs. 1,006,465 (000') and Retained Earnings of Rs. 13,137,897 (000'). The movement in Revaluation Reserve and Statutory Reserve Fund are shown in Note 33 and 34 to the Financial Statements.

Auditors' Report

The auditors of the Bank are Messrs Ernst & Young, Chartered Accountants. Their report on the Financial Statements is given on page pages 131 to 135 They come up for re-election at the Annual General Meeting, with the approval of the Board Audit Committee and the Board of Directors.

Accounting Policies

The accounting policies adopted in preparation of the Financial Statements are given on pages 140 to 154.

Directors' Interest Register

Under the provisions of Section 192 of the Companies Act No. 07 of 2007, the Interest Register is maintained by the Bank. The Directors have made the necessary declarations which are recorded in the Interest register and are available for inspection in terms of the Act. The particulars of the Directors' Interest in Contracts are given in page 124 of the Annual Report.

Donations

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

Directorate

The names of the Directors of the Bank during the period from 01st January 2021 to date are given below and the changes occurred in the composition of the Board during this period. The classification of Directors in to 'Executive', 'Non–Executive, Non-Independent' and 'Non–Executive, Independent' Directors are given against the names as per the Central Bank of Sri Lanka (CBSL) mandatory rules on Corporate Governance under the Banking Act directions.

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

S B Rangamuwa	Non–Executive, Non-Independent Director since August, 2014. Appointed as Deputy Chairman in January, 2018 and was appointed as Chairman in May, 2021.
Aravinda Perera	Non–Executive, Non-Independent Director since August, 2017. Appointed as Deputy Chairman in May, 2021.
Mohan Abeynaike	Non–Executive, Independent Director since October, 2014. Appointed as 'Senior Director' in February, 2015.
Toyohiko Murakami	Non–Executive, Non-Independent Director since April, 2013.
Nihal Kekulawala	Non–Executive, Independent Director since August 2016.
B D A Perera	Non–Executive, Independent Director since April, 2021.
Sandra Walgama	Non-Executive, Independent Director since January, 2022.
Chethiya Umagiliya	Non-Executive, Independent Director since January, 2022.
Nimal Tillekeratne	Director/Chief Executive Officer since April, 2017. Appointed as Managing Director/Chief Executive Officer in March, 2021.
Dimuth Prasanna	Non–Executive, Non-Independent Director since May, 2012. Appointed as 'Deputy Chairman' in September, 2016 until 25th January, 2017 and was appointed as 'Chairman' in July, 2017. Completed 9 years and retired in May, 2021.
Takashi Igarashi	Non–Executive, Independent Director since October, 2012. Completed 9 years and retired in October, 2021.

Re-elections

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

In terms of Article 89 of the Articles of the Association of the Bank B D A Perera, Sandra Walgama and Chethiya Umagiliya being eligible offer themselves for re-election, on an unanimous recommendation by the Board of Directors.

Directors' Interest

The Directors have no direct or indirect interest or proposed contract other than those disclosed.

The Directors have declared all material interest in contracts if any involving the Bank and have refrained in participating when decisions are taken.

Directors' Interest Register is given on page 124 of the Annual Report.

Directors' Interest in Shares

	No. of Shares As at 01.01.2021	No. of Shares As at 31.12.2021
S B Rangamuwa	125,000	335,000
Aravinda Perera	-	-
Mohan Abeynaike	-	-
Toyohiko Murakami	-	-
Nihal Kekulawala	-	-
B D A Perera	-	-
Nimal Tillekeratne	-	-

External Auditors

In accordance with the Companies Act No. 7 of 2007, a resolution for the re-appointment of Messrs Ernst & Young, Chartered Accountants, to the Bank is being proposed at the Annual General Meeting. Audit Fees payable to Ernst & Young for the year under review amounted to Rs. 4,690 (000').

Stated Capital

The Stated Capital of the Bank is Rs.3,614,253 (000'). The details are given in Note 32 to the Financial Statements.

Internal Controls

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

Directors' Responsibility for Financial Reporting

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

Corporate Governance

Since the Licensed Commercial Banks have been exempted from the Colombo Stock Exchange Corporate Governance Rules, the Bank has complied with the CBSL, Banking Act Directions on Corporate Governance and a detailed statement is given on pages 78 to 105.

Related Party Transactions

The Board confirms that section 9 of the Listing Rules of Colombo Stock Exchange has been complied with in respect of Related Party Transactions.

The Board further confirms that the Bank has not been engaged in transactions with any related party in a manner that would grant such party a 'more favourable treatment' than it is accorded to other similar unrelated parties.

Capital Expenditure

Expenditure on Property, Plant & Equipment at cost amounted to Rs.170,202 (000') during 2021, details of which are given in Note 21 to the Financial Statements. Expenditure on Intangible Asset at cost amounted to Rs. 24,210 (000') during 2021, details of which are given in Note 23 to the Financial Statements.

Statutory Payments

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

Shareholding

The number of registered shareholders of the Bank as at 31st December 2021 was 6,374 compared to 4,912 as at 31st December 2020. The schedule indicating the shareholder's analysis is on pages 270 to 273.

Debentures

The details of all Debentures of the Bank are given in Note 31 to the Financial Statements.

Register of Directors and Secretaries

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

Board Committees

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

New Branches

No branches were opened during the year under review, Total number of branches as at the end of 2021 was 85.

Taxation

The Income tax rate applicable on the Bank's taxable profits and income is 24% (2020: 28%). In accordance with the Inland Revenue (Amendment) Act No 10 of 2021, the standard income tax rate applicable for companies has been reduced to 24% with effect from 1st January 2020,. However, the particular Act has been certified on the 13th of May 2021 , As such, the effect the of rate change of the previous year has been adjusted for the year 2021. The Bank has provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 (Income Taxes).

The Bank is also liable for VAT on financial services on the taxable value addition at 15% (2020: 15%).

Annual General Meeting

In complying with the good governance practices, the Annual Report of the Bank is dispatched to Colombo Stock Exchange and shareholders as per the regulatory requirements after the end of the financial year and completion of the audit.

The Annual General Meeting will be held as a virtual meeting on 31st March 2022. The Notice of Meeting can be found on page 280.

Going Concern

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

For and on behalf of the Board of Directors;

S B Rangamuwa
Chairman

Aravinda Perera
Deputy Chairman

Nimal Tillekeratne
Managing Director/Chief Executive Officer

Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
18th February 2022

Directors' Interest Register

Director's / Company Name	Relationship	Type of Assets / Liabilities / Accommodation	Balance Outstanding as at 31.12.2021 Rs 000
S B Rangamuwa			
Vallibel Finance PLC	Managing Director	Deposits	772,568
		Loans and Advances	937,500
Vallibel Properties (Pvt) Ltd	Managing Director	Off Balance Sheet Accommodation	1,200
		Deposits	4,601
Aravinda Perera			
Royal Ceramics Lanka PLC	Managing Director	Deposits	10,157
		Loans and Advances	1,879
Singer Finance Lanka PLC	Chairman	Deposits	258,940
Hayleys PLC	Director	Deposits	28
Rocell Bathware Ltd	Director	Deposits	425
Toyohiko Murakami			
Bansei Holdings LK (Pvt) Ltd	Chairman	Deposits	399,992
Bansei Royal Resorts Hikkaduwa PLC	Deputy Chairman	Deposits	67,571
Bansei Securities Capital (Pvt) Ltd	Director	Deposits	5,567
		Repo Borrowings	15,000
Vallibel Finance PLC	Director	Deposits	772,568
		Loans and Advances	937,500
		Off Balance Sheet Accommodation	1,200
Bansei & NWS Consultancy (Pvt) Ltd	Director	Deposits	20
Hikkaduwa Hotel Holdings (Pvt) Ltd	Director	Deposits	10,516
Bansei Resorts Bentota (Pvt) Ltd	Director	Deposits	78
B R B Holidays (Pvt) Ltd	Director	Deposits	179
Bentota Club Villa (Pvt) Ltd	Director	Deposits	5,007
BHLK Investments (Pvt) Ltd	Director	Deposits	75,312
Wakana JPN (Pvt) Ltd	Director	Deposits	49,102
Wakana Holidays (Pvt) Ltd	Director	Deposits	46
M T Management (Pvt) Ltd	Director	Deposits	147,578
		Loans and Advances	118,684
Murakami Foundation	Director	Deposits	7,138
Bansei Holdings Company Ltd	Director	Deposits	55,715
Nihal Kekulawala			
Lanka Walltiles PLC	Director	Deposits	602
AMW Capital Leasing and Finance PLC	Director	Deposits	344
Softlogic Holdings PLC	Director	Loans and Advances	266,667
B D A Perera			
L B Finance PLC	Executive Director	Deposits	2,359,166
		Loans and Advances	1,593,750

Directors' Other Directorships

S B Rangamuwa
Chairman

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

Aravinda Perera
Deputy Chairman

	Company Name	Position
1.	Royal Ceramics Lanka PLC	Managing Director
2.	Singer Finance Lanka PLC	Chairman
3.	Hayleys PLC	Director
4.	Hayleys Advantis Ltd	Director
5.	Hayleys Aventura (Pvt) Ltd	Director
6.	Fentons Ltd	Director
7.	Rocell Bathware Ltd	Director
8.	Snaps Residencies (Pvt) Ltd	Chairman

Mohan Abeynaike
Senior Director

	Company Name	Position
1.	Asia Pacific Investments (Pvt) Ltd.	Chairman
2.	Asia Pacific Films (Pvt) Ltd.	Director

Toyohiko Murakami
Director

	Company Name	Position
1.	Bansei Holdings LK (Pvt) Ltd	Chairman
2.	Bansei Royal Resorts Hikkaduwa PLC	Deputy Chairman
3.	Bansei Securities Capital (Pvt) Ltd	Director
4.	Vallibel Finance PLC	Director
5.	Bansei & NWS Consultancy (Pvt) Ltd	Director
6.	Hikkaduwa Hotel Holdings (Pvt) Ltd	Director
7.	Bansei Resorts Bentota (Pvt) Ltd	Director
8.	B R B Holidays (Pvt) Ltd	Director
9.	Bentota Club Villa (Pvt) Ltd	Director
10.	BHLK Investments (Pvt) Ltd	Director
11.	Wakana JPN (Pvt) Ltd	Director
12.	Wakana Holidays (Pvt) Ltd	Director
13.	M T Management (Pvt) Ltd	Director
14.	Murakami Foundation	Director
15.	Bansei Holdings Company Ltd	Director

Nihal Kekulawala
Director

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

B D A Perera
Director

	Company Name	Position
1.	L B Finance PLC	Executive Director

Sandra Walgama
Director

	Company Name	Position
1.	CBC Myanmar Microfinance Company Limited	Director

Chethiya Umagiliya
Director

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

*The above Directorships are as at 31st January, 2022.

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Bank prepared in accordance with the Provisions of the Companies Act No. 07 of 2007 is set out in the following statements. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Report of the External Auditors given on pages 131 to 135 of the Annual Report.

In terms of Sections 150 (1) and 151 (1) of the Companies Act No. 07 of 2007, the Directors of the Bank are responsible for ensuring that the Bank prepares the Financial Statements that gives a true and fair view of the state of affairs of the Bank as at the date of the Statement of Financial Position and the profit of the Bank for the financial year ended on the date of the Statement of Financial Position and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at 31st December 2021, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended and notes thereto.

Accordingly, the Directors confirm that the Financial Statements of the Bank give a true and fair view of;

a) the state of affairs of the Bank as at the date of the Statement of Financial Position and

b) the profit of the Bank for the financial year ended on the date of the Statement of Financial Position.

The Financial Statements of the Bank have been certified by the Bank's Chief Financial Officer, the person responsible for their preparation, as required by the Act. Financial Statements of the Bank have been signed by the Chairman, the Deputy Chairman, the Managing Director/Chief Executive Officer and the Company Secretary of the Bank on 18th February 2022 as required by the 150 (1) of the Companies Act No. 07 of 2007.

Under 148 (1) of the Companies Act, it is the overall responsibility of the Directors to oversee and ensure to keep proper accounting records which correctly record and explain the Bank's transactions with reasonable accuracy at any time and to enable the Directors to prepare Financial Statements, in accordance with the said Act and also to enable the Financial Statements to be readily and properly audited.

The Directors in preparing these Financial Statements are required to ensure that;

I. The appropriate accounting policies have been selected and applied in a consistent manner and material departures have been disclosed and explained if any.

II. The judgements and estimates that are reasonable and prudent are made.

III. All applicable accounting standards, as relevant have been followed.

The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements. The Financial Statements prepared and presented in the report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto and the Continuing Listing Rules issued by the Colombo Stock Exchange.

In view of this Directors have taken adequate efforts on inspecting financial reporting system through Audit Committee Meetings and granting approvals for issuing of Interim Financial Statements.

The Directors have also instituted an effective and comprehensive system of Internal Controls. This comprises internal checks, Internal Audits and the whole system of financial and other controls required to carry on the banking business in an orderly manner, safeguard assets, prevent and detect frauds and other irregularities and secure as far as practicable, the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2021 is given on pages 106 & 107 of the Annual Report, "Directors' Statement on Internal Controls Over Financial Reporting". External Auditors' Assurance Report on the Bank's Internal Controls Over Financial Reporting is given on page 108 of the Annual Report.

The Bank's External Auditors, Messrs Ernst and Young carried out reviews and sample checks on the system of Internal Controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them together with all financial records, related data and minutes of shareholders' and Directors meetings and expressed their opinion which appears as reported by them on pages 131 to 135 of this Annual Report.

The Directors to the best of their knowledge are satisfied that all statutory payments in relation to all regulatory and statutory authorities which were due and payable by the Bank were paid, or where relevant provided for.

The Directors of the Bank are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board

N Fernando

Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
18th February 2022

CEO's and CFO's Responsibility for Financial Reporting

The Financial Statements of Pan Asia Banking Corporation PLC ("the Bank") for the year ended 31st December 2021 are prepared and presented in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, Companies Act No.07 of 2007, Sri Lanka Accounting and Auditing Standards Act No.15 of 1995, Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations, and Guidelines issued by the Central Bank of Sri Lanka, and the Listing Rules of the Colombo Stock Exchange. The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank. There are no material departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The significant accounting policies and estimates that involved a high degree of judgement and complexity were discussed with the Audit Committee and External Auditors. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of Internal Control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis.

Our Internal Audit Department has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of Internal Controls and accounting.

Further the Board assessed the effectiveness of the Bank's Internal Controls over Financial Reporting during the year ended 31st December 2021, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 106 and 107 in the Annual Report, the "Directors' Statement on Bank's Internal Controls over Financial Reporting". "External Auditors' Assurance Report on the Bank's Internal Controls over Financial Reporting" is given on page 108 of the Annual Report.

The Financial Statements of the Bank were audited by Messrs Ernst & Young, Chartered Accountants, the independent External Auditors. Their report is given on pages 131 to 135 of the Annual Report. The Audit Committee of the Bank meets periodically with the Internal Audit team and the independent External Auditors to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on Internal Controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee approves the audit and non audit services provided by External Auditors, Messrs Ernst & Young, in order to ensure that the provision of such services does not impair independence of the External Auditors and does not contravene the guidelines issued by Central Bank of Sri Lanka on permitted non-audit services.

The Bank has taken appropriate action to implement New Sri Lanka Accounting Standards on due dates and all the processes are in place to address the requirements of the new Sri Lanka Accounting Standards.

We confirm to the best of our knowledge;

- The Bank has complied with all applicable laws, regulations and prudential requirements and in the opinion of the Bank's legal council, the litigations which are currently pending will not have a material impact on the reported financial results or future operations of the Bank.

- All taxes, duties, levies and all statutory payments by the Bank and all contributions, levies and taxes paid on behalf of and in respect of the employees of the Bank as at the Statement of Financial Position date have been paid or where relevant provided for.

Nimal Tillekeratne
Managing Director/Chief Executive Officer

Suranga Fernando
Chief Financial Officer

Colombo, Sri Lanka
18th February 2022

Bank's Compliance with Prudential Requirements

Pan Asia Bank conducts its business in accordance with the laws and regulations imposed by the regulatory authorities in line with the Bank's internal polices and codes of conduct. Compliance risk is the risk arising out of non-compliance with applicable laws, regulations, code of conduct and standard of best practice.

The Compliance Department

The Compliance Department plays a vital role in mitigating the compliance risk arising out of the day-to-day operations. The department consistently assesses the Bank's compliance with laws, regulations, and statutory guidelines issued and also the internal controls and policies. The department functions independently and is headed by the Chief Compliance Officer who directly reports to the Board Integrated Risk Management Committee (BIRMC).

The Bank's Compliance procedures and guidelines are clearly set out in the Board approved Compliance Policy. The Compliance Policy communicates the Bank's compliance philosophy, the basic principles governing the compliance function, as well as the broad structure and processes to ensure that compliance risks are addressed adequately and in a timely manner, by the relevant sections within the Bank.

Monitoring regulatory requirements under Know Your Customer (KYC), Anti Money Laundering (AML), Foreign Exchange and FACTA are some of the key functions carried out by the department along with disseminating regulatory/internal requirements to business units for embedding same with its operations and ensuring they operate within the boundaries set by the Regulator and the Bank.

Compliance Reporting

The Compliance Department periodically prepare a detailed report, based on the sign offs given by the heads of all business units and branches on statutory and mandatory reporting requirements and the Bank's level of compliance to the Board Integrated Risk Management Committee (BIRMC) which are submitted on a quarterly basis.

The Compliance Certificate includes;

- Significant changes to directions/ new regulations
- Compliance monitoring on regulatory and AML requirements
- Significant non-compliance events. Regulatory/potential breaches
- Training/awareness undertaken and/ or identification of training needs

Compliance Culture

The Compliance Department strives to instill an organisation wide compliance culture emphasising standards of honesty and integrity. Training programmes are carried out for all staff periodically to ensure that all employees are adequately aware of the Bank's compliance requirements, and procedures. Further, all newly recruited staff members are introduced to the Bank's compliance processes during the induction.

Anti Money Laundering (AML) Compliance

The Bank has established a sound framework for AML compliance based on relevant laws enacted by the Government of Sri Lanka to combat money laundering/terrorist financing and in line with the rules governing the conduct of all account relationships issued by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka.

A separate policy for AML has been approved by the Board of Directors and is reviewed periodically.

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

The Bank takes all reasonable steps to verify the identity of the customers in accordance with the directions issued by the FIU. Systems are also in place to ensure that Know Your Customer (KYC) and Customer Due Diligence (CDD) information is collected and kept up-to-date and that identification details are updated when changes occur. Accordingly, accounts are categorised based on risk as High, Medium and Low and a higher level of due diligence and monitoring is carried out in high risk areas. The Compliance Department carries out risk based testing bank wide to ensure adherence to the stipulated framework.

Monitoring and reporting of suspicious transactions which include large and structured transactions above a specified threshold as per applicable regulatory and internal guidelines is also carried out.

New Product Development Framework

All new products and procedures are carefully checked to ensure they comply with the regulatory requirements prior to approval and launch. In relation to all operating instructions for various activities, the Bank ensures that they are reviewed and signed off by Compliance, Risk Management, Legal, Finance and the Internal Audit departments as required.

Shared Growth

The ultimate measure of progress is the value we create. We are driven by the intent to empower and enable others through our performance.

FINANCIAL AND INVESTOR INFORMATION

Financial Calendar

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

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

Independent Auditors' Report

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

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

TO THE SHAREHOLDERS OF PAN ASIA BANKING CORPORATION PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Pan Asia Banking Corporation PLC ("the Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Independent Auditors' Report

Building a better working world

Key Audit Matter	How our audit addressed the key audit matter
Provision for credit impairment on financial assets carried at amortised cost Provision for credit impairment on financial assets carried at amortised cost as stated in Notes 18 and 19 is determined by management in accordance with the accounting policies described in Note 2.9.6. This was a key audit matter due to: • materiality of the reported provision for credit impairment which involved complex calculations; and • degree of management judgement, significance of assumptions and level of estimation uncertainty associated with its measurement Key areas of significant judgements, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following. - management overlays to incorporate the probable ongoing impacts of COVID-19, related industry responses and debt moratorium relief measures granted by the Bank. - the incorporation of forward-looking information to reflect current and anticipated future external factors, including judgments related to the ongoing impact of COVID-19, both in the multiple economic scenarios and the probability weighting determined for each such scenario.	We assessed the alignment of the Bank's provision for credit impairment computations and underlying methodology including consideration of COVID 19 impacts and related industry responses with its accounting policies, based on the best available information up to the date of our report. Our audit procedures included amongst others the following. • We evaluated the design, implementation, and operating effectiveness of controls over estimation of impairment, which included assessing the level of oversight, review, and approval of provision for credit impairment policies and procedures by the Board and management. • We checked the completeness and accuracy of the underlying data used in the impairment computation by agreeing details to relevant source documents and accounting records of the Bank. We also checked the underlying calculations. • In addition to the above, the following procedures were performed: **For loans and advances assessed on an individual basis for impairment:** • We assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances. • We evaluated the reasonableness of key inputs used in the provision for credit impairment made with particular focus on the ongoing impact of COVID-19. Such evaluations were carried out considering value and timing of cash flow forecasts, elevated risk industries, status of recovery action and collateral values. **For financial assets assessed on a collective basis for impairment:** • We tested the key calculations used in the provision for credit impairment. • We assessed whether judgements, estimates and assumptions used by the Management in the underlying methodology including the management overlays were reasonable. Our testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each such scenario. • We assessed the adequacy of the related financial statement disclosures set out in notes 18,19 and 37.2

EY
Building a better working world

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

Independent Auditors' Report

Other information included in the 2021 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.

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

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2471.

18 February 2022

Colombo

Statement of Comprehensive Income

Year ended 31st December	Notes	2021 Rs 000	2020 Rs 000
Profit or Loss			
Gross Income		21,103,534	20,881,425
Interest Income		18,798,301	18,821,013
Interest Expense		(9,156,565)	(11,451,264)
Net Interest Income	4	9,641,736	7,369,749
Fee and Commission Income		1,821,228	1,346,033
Fee and Commission Expenses		(38,295)	(69,969)
Net Fee and Commission Income	5	1,782,933	1,276,064
Net Gains from Trading	6	92,257	478,880
Other Operating Income	7	391,748	235,499
Total Operating Income		11,908,674	9,360,192
Impairment Charges	8	2,370,452	1,596,042
Net Operating Income		9,538,222	7,764,150
Personnel Expenses	9	2,227,359	1,942,765
Other Operating Expenses	10	2,399,633	2,293,184
Total Operating Expenses		4,626,992	4,235,949
Operating Profit Before VAT on Financial Services		4,911,230	3,528,201
Value Added Tax on Financial Services	11	877,577	690,035
Profit Before Tax		4,033,653	2,838,166
Income Tax Expense	12	958,295	789,998
Profit for the Year		3,075,358	2,048,168
Other Comprehensive Income			
Other Comprehensive Income Not to be Re-classified to Profit or Loss			
Revaluation Surplus on Property, Plant and Equipment		-	37,493
Deferred Tax Effect on Above	12.2	-	(10,498)
	33	-	26,995
Actuarial Gains/(Losses) on Defined Benefit Plan	30.1	36,409	(9,421)
Deferred Tax Effect on Above	12.2	(8,738)	2,638
		27,671	(6,783)
Deferred Tax Effect on Revision of Statutory Income Tax Rate	33	53,311	-
Other Comprehensive Income for the Year, Net of Tax		80,982	20,212
Total Comprehensive Income for the Year		3,156,340	2,068,380
Earnings Per Share - Basic/Diluted (Rs.)	13	6.95	4.63

The Notes to the Financial Statements on pages 140 to 230 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31st December	Notes	2021 Rs 000	2020 Rs 000
Assets			
Cash and Cash Equivalents	14	2,218,092	2,914,163
Balances with Central Bank of Sri Lanka	15	5,038,345	10,304,348
Reverse Repurchase Agreements	17	-	1,530,441
Derivative Financial Instruments	16	4,592	93,013
Financial Assets at Amortised Cost			
-Loans and Advances	18	142,369,157	123,157,187
-Debt and Other Instruments	19	34,110,583	34,268,495
Financial Assets at Fair Value through Other Comprehensive Income	20	3,752	6,158
Property, Plant and Equipment	21	2,335,826	2,307,882
Right-of-Use Assets	22	1,377,406	983,365
Intangible Assets	23	320,863	346,697
Other Assets	24	1,733,054	1,028,659
Total Assets		189,511,670	176,940,408
Liabilities			
Due to Banks	25	3,914,395	2,863,376
Repurchase Agreements	17	254,154	898,651
Derivative Financial Instruments	16	33	79,005
Financial Liabilities at Amortised Cost			
-Due to Depositors	26	146,433,816	141,079,707
-Due to Debt Securities Holders	27	12,978,490	10,637,140
Subordinated Debentures	31	872,839	872,839
Retirement Benefit Obligations	30.2	376,851	385,674
Current Tax Liabilities		1,252,818	825,102
Deferred Tax Liabilities	12.2	118,401	159,835
Other Provisions and Accruals	28	196,193	210,864
Other Liabilities	29	4,560,172	3,531,047
Total Liabilities		170,958,162	161,543,240
Equity			
Stated Capital	32	3,614,253	3,614,253
Retained Earnings		13,137,897	10,179,069
Revaluation Reserve	33	1,006,465	962,721
Statutory Reserve Fund	34	794,893	641,125
Total Equity		18,553,508	15,397,168
Total Equity and Liabilities		189,511,670	176,940,408
Commitments and Contingencies	41	37,779,887	67,728,484
Net Asset Value Per Ordinary Share	38	41.92	34.79

The Notes to the Financial Statements on pages 140 to 230 form an integral part of these Financial Statements.

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

Suranga Fernando
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Approved and signed for and on behalf of the Board by;

S B Rangamuwa
Chairman

Aravinda Perera
Deputy Chairman

Nimal Tillekeratne
Managing Director/Chief Executive Officer

Nayantha Fernando
Company Secretary

18th February 2022
Colombo, Sri Lanka

Statement of Changes in Equity

	Notes	Stated Capital	Reserves			Total
		Ordinary Voting Shares	Retained Earnings	Statutory Reserve Fund	Revaluation Reserve	
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 01st January 2020		3,614,253	8,231,159	538,717	944,659	13,328,788
Total Comprehensive Income for the Year						
Profit for the Year		-	2,048,168	-	-	2,048,168
Other Comprehensive Income for the Year	30.1, 12.2 & 33	-	(6,783)	-	26,995	20,212
Total Comprehensive Income for the Year		-	2,041,385	-	26,995	2,068,380
Other Transactions						
Transfer to Statutory Reserve Fund	34	-	(102,408)	102,408	-	-
Realisation of Revaluation Reserve	33	-	8,933	-	(8,933)	-
Total Other Transactions		-	(93,475)	102,408	(8,933)	-
Balance as at 31st December 2020		3,614,253	10,179,069	641,125	962,721	15,397,168
Total Comprehensive Income for the Year						
Profit for the Year		-	3,075,358	-	-	3,075,358
Other Comprehensive Income for the Year	30.1, 12.2 & 33	-	27,671	-	53,311	80,982
Total Comprehensive Income for the Year		-	3,103,029	-	53,311	3,156,340
Other Transactions						
Transfer to Statutory Reserve Fund	34	-	(153,768)	153,768	-	-
Realisation of Revaluation Reserve	33	-	9,567	-	(9,567)	-
Total Other Transactions		-	(144,201)	153,768	(9,567)	-
Balance as at 31st December 2021		3,614,253	13,137,897	794,893	1,006,465	18,553,508

The Notes to the Financial Statements on pages 140 to 230 form an integral part of these Financial Statements.

Statement of Cash Flows

Year ended 31st December	Notes	2021 Rs 000	2020 Rs 000
Cash Flows from Operating Activities			
Profit Before Tax		4,033,653	2,838,166
Adjustments for:			
Other Non-Cash Items included in Profit Before Tax	39.4	2,899,531	2,089,995
Change in Operating Assets	39.2	(15,874,951)	(24,521,737)
Change in Operating Liabilities	39.3	7,170,626	20,084,553
Interest Expense on Subordinated Debentures	4	114,800	52,839
Interest Expense on Lease Liabilities	4	94,796	87,495
Interest Expense on Term Borrowings		789,069	851,382
Gratuity Paid	30.2	(40,511)	(26,777)
Income Tax Paid		(527,440)	(697,990)
Net Cash Flows generated from/(used in) Operating Activities		(1,340,427)	757,926
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	21.1	(170,202)	(92,190)
Proceeds from Sale of Property, Plant and Equipment		231	138
Purchase of Intangible Assets	23.1	(24,210)	(109,469)
Net Cash Flows used in Investing Activities		(194,181)	(201,521)
Cash Flows from Financing Activities			
Proceeds from Term Borrowings	39.6	6,843,767	4,090,350
Proceeds from Issue of Subordinated Debentures	39.6	-	820,000
Repayment of Term Borrowings	39.6	(4,796,394)	(3,176,560)
Interest Paid on Subordinated Debentures	39.6	(114,800)	-
Interest Paid on Term Borrowings	39.6	(801,921)	(801,836)
Repayment of Principal Portion of Lease Liabilities	39.6	(193,160)	(193,227)
Interest Paid on Lease Liabilities	39.6	(94,796)	(87,495)
Net Cash Flows generated from Financing Activities		842,696	651,232
Net Increase/(Decrease) in Cash and Cash Equivalents		(691,912)	1,207,637
Cash and Cash Equivalents as at 01st January	39.1	2,917,288	1,709,651
Cash and Cash Equivalents as at 31st December	39.1	2,225,376	2,917,288

The Notes to the Financial Statements on pages 140 to 230 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 Reporting Entity

Pan Asia Banking Corporation PLC ("the Bank") is a public quoted company incorporated on 06th March 1995 with a limited liability and domiciled in Sri Lanka. It is a Licensed Commercial Bank registered under the Banking Act No. 30 of 1988 and amendments thereto. The registered office of the Bank is situated at No. 450, Galle Road, Colombo 03. The staff strength of the Bank as at 31st December 2021 is 1,396 (2020:1,483). The ordinary voting shares of the Bank have a listing on the Colombo Stock Exchange. The Bank does not have an identifiable parent of its own. Further, the Bank does not hold any investments in the form of subsidiary, joint venture or associate.

1.2 Principal Activities and Nature of Operations

The principal activities of the Bank continued to be banking and related activities such as accepting deposits, personal banking, trade financing, treasury and investment services, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease and hire purchase financing, pawning and gold loans, issuing of local and international credit cards & debit cards, tele-banking, internet and SMS banking facilities.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

The Financial Statements of the Bank for the year ended 31st December 2021 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 the requirements of Companies Act No. 07 of 2007.The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. The formats used for preparation and presentation of Financial Statements and the disclosure made therein also comply with the formats specified by Central Bank of Sri Lanka.

The Financial Statements include Statement of Financial Position, Statement of Comprehensive Income (Profit or Loss and Other Comprehensive Income), Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements. These Financial Statements except for the information on cash flows have been prepared following the accrual basis of accounting.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the Financial Statements of the Bank as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements for the year ended 31st December 2021 were authorised for issue by the Board of Directors on 18th February 2022.

2.4 Basis of Measurement

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

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

2.4.1 Functional and Presentation Currency

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

2.4.2 Rounding

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

2.5 Impact of COVID-19

COVID-19 has significantly impacted the world economy and may continue to do so in the years to come. Many countries imposed travel restrictions and lockdowns on people and people in many locations have been subjected to quarantine measures. Some businesses are dealing with lost revenue and disrupted supply chains. While most countries have eased the previously imposed lockdowns, the relaxation has been gradual and, in some cases, stricter measures have been re-imposed to deal with renewed outbreaks. As a result of the disruption to businesses, some workers lost their jobs and many businesses, especially those that involve close in-person contact, have been adversely affected. COVID-19 has also resulted in significant volatility in the financial and commodities markets worldwide. Various governments have provided both financial and non-financial assistance to disrupted industry sectors and the affected businesses and other organisations.

Sri Lanka's third wave of the COVID-19 pandemic which emerged in mid-2021 reached its peak in August 2021 with a severe impact on the country's economy. This caused the government imposing an island-wide/selective lockdowns followed by a further extension of the debt moratorium and other reliefs to the affected customers to maintain their lives without further burden. Consequently, the debt moratorium for the tourism sector was further extended until 30th June 2022, while the debt moratorium allowed for several other sectors extended until 31st December 2021. The extent to which these efforts will reduce the adverse financial effects of the COVID-19 pandemic still remains uncertain. Therefore, the pandemic has significantly increased the estimation uncertainty in the preparation of these Financial Statements including:

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

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

2.5.1 Consideration of the Financial Statements and further Disclosures

The Bank has carefully considered the impact of COVID-19 pandemic in preparing its Financial Statements for the year ended 31st December 2021. The key impacts on the Financial Statements, including the application of critical estimates and judgements are given below:

2.5.1.1 On loans and advances

The Bank extended the support measures for customers impacted by COVID-19 during the year which include loan repayment deferrals, waiving late payment charges and other charges and extending concessionary rate loans granted to affected borrowers under the government induced and bank induced schemes. These repayment deferral arrangements i.e. loan moratoriums were deemed to be continuations of customers' existing loan contracts and were therefore accounted for as 'non-substantial loan modifications'. The entire modification loss in relation to repayment deferrals on loans (if any) were recognised under the interest income of the year. Interest for the payment deferral period has been charged in accordance with the relevant regulatory directives and terms of these modified credit facilities have been endorsed by the relevant borrowers. The details of modified financial assets are given in Note 37.2.6.1.

2.5.1.2 Provisions for impairment

In assessing forecast conditions, the Bank continue to incorporate the impact of COVID-19 and government support measures on a reasonable and supportable basis. The SLFRS 9 impairment methodology and the definition of Default have remained consistent with prior periods.

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

The circumstances are unique in that many of the deferred loans were performing prior to COVID-19, and either continue to perform, or have genuine prospects of recovery once restrictions are eased and economy is back to normal. COVID-19 repayment deferrals were not borrower specific, but rather addressed to broad ranges of customers as applied by them and have therefore, not been classified under Stage 2 by default. However, the Bank has downgraded the borrowers in elevated risk industries/segments between stages as per the internal assessment. The majority of the loans that were granted COVID-19 deferrals previously returned to their regular non-deferral terms during the year ended 31st December 2021. Further, the details of Management Overlays are given in Note 37.2.7.

2.5.1.3 Fair value measurement

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

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

2.5.1.4 Assessment of impairment of non-financial assets

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

2.5.1.5 Events after the reporting date

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

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

2.6 Presentation of Financial Statements

The Bank presents its Statement of Financial Position broadly in order of liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 40. Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.7 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Bank's Financial Statements requires the Management to make judgements, estimates and assumptions that affect the reported amount of revenue, expenses, assets, liabilities and the accompanying disclosures, as well as the disclosure of contingent liabilities.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, the management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the Financial Statements with substantial management judgement and/or estimates are collated below with respect to judgements/ estimates involved.

2.7.1 Going Concern

The Management has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for a foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

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

Subsequent to the outbreak of COVID-19 in Sri Lanka, the Bank has strictly adhered to the guidelines and directions issued by both the government and CBSL when conducting its business operations. Further, the Bank has provided reliefs to the affected businesses and individuals in line with the directions issued by the CBSL. These relief measures include deferment of repayment terms of credit facilities, offering concessionary rates of interest to eligible loan products and waiving off certain fees and charges.

The management has considered the possible downsides that the COVID-19 pandemic could bring to the business operations of the Bank, in making this assessment. However, considering a wide range of factors including history of profitable operations, strong liquidity position and stable external funding sources, diversified lending profile and the initiatives taken by the Bank for strengthening risk monitoring at borrower level, the Management satisfied itself that the going concern basis is appropriate.

2.7.2 Classification of Financial Assets and Liabilities

The Bank's accounting policies provide scope for assets and liabilities to be classified, at inception into different accounting categories. The classification of financial instruments is given in Note 35 'Analysis of Financial Assets and Liabilities by Measurement Basis'.

2.7.3 Fair Value of Financial Instruments

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

2.7.4 Impairment Losses on Financial Assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk.

These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Bank's Days Past Due (DPD) based model, which assigns Probabilities of Defaults (PDs) to the individual age bucket.
- The Bank's criteria for assessing, if there has been a Significant Increase in Credit Risk (SICR) and so, allowances for financial assets should be measured on a Life Time Expected Credit Losses (LTECL) basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and economic inputs such as unemployment levels, collateral values and the effect on Probability of Defaults (PDs), Exposure at Defaults (EADs) and Loss Given Defaults (LGDs).
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive the economic inputs into the ECL models.

In response to COVID-19 and the Bank's expectations of economic effects, key assumptions used in the calculation of ECL have been revised further during the year. As at the reporting date, the expected effects of COVID-19 have been captured as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19.

The fundamental credit model and methodology underneath the Bank's calculation of ECLs have remained consistent with prior periods although the credit model inputs and assumptions, including forward-looking macroeconomic assumptions, were revised in response to the COVID-19 outbreak. Therefore, the Bank continues to identify the customers showing distress signs in identifying SICR under the individual impairment assessment while under the collective assessment, customers operating in risk elevated segments and industries were assessed for Lifetime ECLs under Stage 2 and Stage 3.

Further, the Bank increased the weightage assigned for worst case scenario while reducing the weightages assigned for base case scenario and best case scenario, in assessing the probability weighted forward looking macro-economic indicators along with management overlays to qualitative indicators relating to forward looking macro-economic environment with the objective of capturing the impact of COVID-19 and uncertainties and volatilities in future outlook on the ECL computation as at the reporting date.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

The impairment losses on financial assets as per SLFRS 9 are disclosed in more detail in Note 8, 14.1, 18.5, 18.6, 19.3 and 29.2.

2.7.5 Fair Value of Property, Plant and Equipment

The freehold land and buildings of the Bank are reflected at fair value. The management has determined that these constitute a class of assets under SLFRS 13, based on the nature, characteristics and risks of the property. The Bank engages independent professional valuers to determine fair value of land and buildings. When current market prices of similar assets are available, such evidence is considered in estimating fair value of these assets using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Assumptions used are disclosed in Note 21.6.

2.7.6 Useful Lives, Methods of Depreciation and Residual Values of the Property, Plant and Equipment

The Bank reviews the useful lives, methods of depreciation and residual values of significant property, plant and equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.7.7 Defined Benefit Plan Obligation

The defined benefit plan obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are reviewed at each reporting date and disclosed in Note 30.

2.7.8 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax planning strategies.

2.7.9 Provisions, Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

Notes to the Financial Statements

2.8 Changes in Accounting Policies and Disclosures

2.8.1 New and Amended Standards and Interpretations

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

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

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for a change under SLFRS 16, if the change was not a lease modification. The amendment applies to annual reporting periods beginning on or after 01st April 2021 and since the impact is continuing, the period of application of this practical expedient extended till 30 June 2022.

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

2.8.1.2 Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16

- Interest Rate Benchmark Reform (Phase 1 and 2)

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

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments support companies in applying SLFRS when changes are made to contractual cash flows or hedging relationships because of the reform .The amendments applies to annual reporting periods beginning on or after 01st January 2021.

None of the amendments have a material impact on the Financial Statements of the Bank.

2.9 Summary of Significant Accounting Policies

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

2.9.1 Foreign Currency Translation - Transactions and Balances

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

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

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

2.9.2 Financial Instruments - Initial Recognition

2.9.2.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

2.9.2.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.9.3.1.1 and 2.9.3.1.2. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the 'Day 1 Profit or Loss', as described below.

2.9.2.3 'Day 1' Profit or Loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in 'Net Trading Income'. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in Profit or Loss when the inputs become observable, or when the instrument is derecognised.

2.9.2.4 Measurement categories of financial assets and liabilities

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

- Amortised Cost, as explained in Note 2.9.3.1.
- Fair Value through Other Comprehensive Income (FVOCI),

as explained in Notes 2.9.3.4 and 2.9.3.5

- Fair Value through Profit or Loss (FVPL), as explained in Note 2.9.3.7

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

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 2.9.3.7.

2.9.3 Financial Assets and Liabilities

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

The Bank only measures balances with foreign banks, placements with banks, reverse repurchase agreements, loans and advances and other debt instruments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

2.9.3.1.1 Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and in particular, the way those risks are managed.
- How managers of the business are compensated. (For example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2.9.3.1.2 The SPPI test

As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.9.3.2 Derivatives recorded at FVPL

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

- Its value changes in response to a change in a specified interest rate, foreign exchange rate, financial instrument price, commodity price, index of prices or rates, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include cross currency swaps, forward foreign exchange contracts and interest rate swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fully collateralised derivatives that are settled net in cash on a regular basis through clearing houses are only recognised to the extent of the overnight outstanding balance. The notional amount and fair value of such derivatives are disclosed separately in Note 16. Changes in the fair value of derivatives are included in 'Net Gains from Trading' in Profit or Loss.

2.9.3.3 Financial assets or financial liabilities held for trading

The Bank classifies financial assets as held for trading when they have been purchased primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the Statement of Financial Position at fair value. Changes in fair value and dividend income are recognised in 'Net Gains from Trading'. Interest income on held-for-trading assets are recorded in 'Interest Income'.

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

2.9.3.4 Debt instruments at FVOCI

The Bank classifies debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income (OCI). Interest income and foreign exchange gains & losses are recognised in Profit or Loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for debt instruments at FVOCI is explained in Note 2.9.6.3. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to Profit or Loss.

2.9.3.5 Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of 'Equity' under LKAS 32 - 'Financial Instruments: Presentation' and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to Profit or Loss. Dividends are recognised in Profit or Loss as 'Other Operating Income' when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

2.9.3.6 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue of funds, and costs that are an integral part of the Effective Interest Rate (EIR). A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

2.9.3.7 Financial assets and financial liabilities at FVPL

Financial assets and financial liabilities in this category are those that are not held-for-trading and have been either designated by the management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. The Management only designates an instrument at FVPL upon initial recognition when one of the following criteria is met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis

  or

- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy

  or

- The liabilities containing one or more embedded derivatives unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative is prohibited.

2.9.3.8 Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the Financial Statements within 'Other Liabilities' at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or Loss and under SLFRS 9, an ECL provision as set out in Note 29.2.

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

Undrawn loan commitments, financial guarantees and letters of credit are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements. ECLs on undrawn credit commitments are added to the impairment allowances of the respective loan product and disclosed under Note 18.6.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments where the loan agreed to be provided is on market terms, are not recorded in the Statement of Financial Position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 41 and 29.2 respectively.

2.9.4 Reclassification of Financial Assets and Liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2021 and 2020.

2.9.5 Derecognition of Financial Assets and Liabilities

2.9.5.1 Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that substantially it becomes a new loan with the difference recognised as a derecognition gain or loss to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as 'Stage 1' for ECL measurement purposes unless the new loan is deemed to be Purchased or Originated Credit Impaired (POCI).

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss to the extent that an impairment loss has not already been recorded.

2.9.5.2 Derecognition other than for substantial modification

2.9.5.2.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

  or

- It retains the rights to the cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

  Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset') but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients.
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

  or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Notes to the Financial Statements

2.9.5.2.2 Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in Profit or Loss.

2.9.6 Impairment of Financial Assets

2.9.6.1 Overview of Expected Credit Loss (ECL) principles

The Bank records an allowance for ECL for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'Financial Instruments'. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 2.9.6.2. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 37.2.2.5.

The 12mECL is the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 37.2.2.6.

The Bank has established a policy to perform an assessment at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 37.2.2.5

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. Further, the Bank includes credit facilities restructured up to 2 times under Stage 2.
- Stage 3: Loans considered credit impaired (as outlined in Note 37.2.2.1). The Bank records an allowance for the LTECLs. Further, the Bank includes credit facilities restructured for more than 2 times under Stage 3.
- POCI: POCI assets are financial assets that are credit impaired on initial recognition. They are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

2.9.6.2 The calculation of ECLs

The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- Probability of Default (PD): The PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 37.2.2.2.
- Exposure at Default (EAD): The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities and accrued interest from missed payments. The EAD is further explained in Note 37.2.2.3.
- Loss Given Default (LGD): The LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 37.2.2.4.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs as set out in Note 37.2.2 and 37.2.3. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities for which the treatment is separately set out in Note 2.9.6.4, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 2.9.3.8. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained in Note 2.9.6.4.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecasted EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above including the use of multiple scenarios but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit impaired (as defined in Note 37.2.2.1), the Bank recognises the LTECLs for these loans. The method is similar to that for Stage 2 assets with the PD set at 100%.
- POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition based on a probability weighting of the three scenarios discounted by the credit-adjusted EIR.
- Loan Commitments and Letters of Credit: When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down based on a probability weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For letters of credit, ECLs are recognised within 'Other Liabilities'.

- Financial Guarantee Contracts:

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or Loss and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within 'Other Liabilities'.

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

In assessing ECL, the Bank incorporated the effects of COVID-19 and the government support measures on a reasonable and supportable basis. Forward looking adjustments have been determined based on economic projections made by credible sources and allocated a higher weightage to downside (worst case) scenarios in order to reflect the prevailing economic conditions. Further, the Bank has identified moratorium requested customers due to COVID-19 directly as high risk customers and recognised higher provision for those borrowers. The Bank has experienced a higher impairment charge during the year compared to prior years due to evolving nature of the pandemic.

Further details are found in Note 37.2.7 - Management Overlays.

2.9.6.3 Debt instruments measured at FVOCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount with a corresponding charge to Profit or Loss.

The accumulated loss recognised in OCI is recycled to the Profit or Loss upon derecognition of the assets.

2.9.6.4 Credit cards and other revolving facilities

The Bank's product offerings include a variety of corporate and retail overdrafts and credit card facilities in which the Bank has the right to cancel and/or reduce the facilities with a very short notice. The Bank does not limit its exposure to credit losses to the contractual notice period but instead, calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures which could include reducing or cancelling the facilities. Based on past experience and

Notes to the Financial Statements

the Bank's expectations, the period over which the Bank calculates ECLs for these products, is one year. For credit cards and revolving facilities that include both Loan and undrawn commitment, ECLs are calculated and presented together with the loan.

The on-going assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's days past due and internal assessments as explained in Note 37.2.2, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average EIR that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs including the estimation of the expected period of exposure and discount rate is made as explained in Note 37.2.2, on an individual basis and on a collective basis. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

2.9.6.5 Forward looking information

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

Base case scenario

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

Upside (Best Case) scenario

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

Downside (Worst Case) scenario

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

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

Quantitative factors

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

Qualitative factors

- Government policies
- Status of industry and business
- Regulatory impact

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the Financial Statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 37.2.3.

2.9.7 Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, properties, letters of credit, guarantees, receivables, inventories and other movable & non-movable assets. The fair value of collateral is generally assessed, at a minimum, at inception and thereafter value changes are monitored in accordance with policies and procedures of the Bank. However, some collateral, for example, cash or securities relating to margin requirements are valued on daily basis. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collateral such as freehold property is valued based on valuation reports and other independent sources.

2.9.8 Collateral Repossessed

The Bank's policy is to sell the repossessed assets at the earliest possible opportunity. Such collaterals repossessed are held on a memorandum basis without derecognising the underlying receivable.

2.9.9 Write-offs

Financial assets are written-off either partially or in their entirety only when the Bank has stopped pursuing the recovery. The Bank takes reasonable steps in pursuing recovery of contractual amounts outstanding prior to writing them off from books. The amounts written-off during the year as disclosed in Note 18.6 are contractual amounts which the Bank has either become unsuccessful on the enforcement action or has concluded that the chances of recovering the same as remote. If the amount to be written-off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are shown under 'Other Operating Income'.

2.9.10 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties or deterioration of credit quality, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk. Accordingly, all re-scheduled loans are classified as Stage 3 unless upgraded due to satisfactory performing period as specified in the Direction on 'Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard - SLFRS 9: Financial Instruments' issued by the Central Bank of Sri Lanka. Further, loans which have been restructured are classified as stage 2 or 3 based on the number of times restructured unless upgraded due to satisfactory performing period as specified in the said Guidelines.

Details of restructured and rescheduled loans are disclosed in Note 37.2.6.2. If modifications are substantial, the loan is derecognised, as explained in Note 37.2.6.

2.9.11 Off-Setting Financial Instruments

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

2.9.12 Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Expenses are recognised in Profit or Loss in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to Profit or Loss. For the purpose of presentation of the Statement of Comprehensive Income, the 'Function of Expenses Method' has been adopted, on the basis that it presents fairly the elements of the Bank's performance.

2.9.12.1 The Effective Interest Rate (EIR) method

Interest income is recorded using the EIR method for all financial instruments measured at amortised cost and financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9 is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR.

The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in Interest Income.

The adjustment is subsequently amortised through interest and similar income in the Statement of Comprehensive Income (Profit or Loss).

2.9.12.2 Short Term Employee Benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided and are included under 'Personnel Expenses' in the Statement of Comprehensive Income (Profit or Loss). A liability is recognised for the amounts expected to be paid under short term bonus, if the Bank has a present legal or constructive obligation to pay this amount as a result of past services rendered by the employees and the obligation can be measured reliably.

2.9.13 Cash and Cash Equivalents

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

2.9.14 Other Assets

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

2.9.15 Impairment of Non-Financial Assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value-in-use. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, that asset is considered impaired and is written down to its recoverable amount.

In assessing value-in-use, the estimated future cash flows are discounted to

Notes to the Financial Statements

their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices or other available fair value indicators.

An assessment is made for assets at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or cash generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Profit or Loss in the Statement of Comprehensive Income.

2.9.16 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in Profit or Loss in the Statement of Comprehensive Income net of any reimbursement.

2.9.16.1 Operational risk events

Provisions for operational risk events are recognised for losses incurred by the Bank which do not relate directly to amounts of principal outstanding for loans and advances. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

2.9.17 Other Liabilities

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

2.9.18 Taxes

2.9.18.1 Current Tax and Deferred Tax

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

2.9.18.2 Crop Insurance Levy

Crop Insurance Levy is calculated at the rate of 1% of the profit after tax in accordance with Finance Act No. 12 of 2013.

2.9.18.3 New Taxes and Levies under the Government Budget Proposals – 2022

2.9.18.3.1 One-Off Surcharge tax

It has been proposed to impose a onetime surcharge tax of 25% on individuals and companies with a taxable income exceeding Rs. 2 billion for the Year of Assessment 2020/2021.

2.9.18.3.2 Social Security Contribution

Further, it has been proposed to introduce a 2.5% levy termed 'Social Security Contribution' on excess over annual turnover Rs.120 million, to rebuild the economy affected by the COVID-19 pandemic with effect from 01st April 2022.

However, relevant legislations are yet to be passed in the Parliament and also guidelines to be issued on the collection mechanism.

2.9.19 Statutory Reserve Fund

'Statutory Reserve Fund' represents the statutory requirement in terms of Section 20 (1) and (2) of the Banking Act No. 30 of 1988.

2.9.20 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year approved after the reporting date are disclosed as an event after the reporting date.

2.9.21 Materiality and Aggregation

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard - LKAS 1 - "Presentation of Financial Statements". Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.9.22 Related Party Transactions

Disclosures have been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is being charged. The Related Party Transactions and balances are disclosed in Note 43.

2.9.23 Events After the Reporting Date

All the material events occurred after the end of the reporting period to the date the Financial Statements are authorised for issue, have been considered and appropriate adjustments/ disclosures have been made in Note 44 to the Financial Statements.

2.9.24 Comparative Information

The comparative information has been reclassified where ever necessary to conform with the current year's classification in order to provide a better presentation. Details of re-classifications made during the year is given under the Note 47 to the Financial Statements.

2.9.25 Changes in Accounting Policies

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

2.10 Regulatory Provisions

2.10.1 Deposit Insurance and Liquidity Support Scheme

In terms of the Banking Act Direction No. 05 of 2010 'Insurance of Deposit Liabilities' issued on 27th September 2010 and subsequent amendments, are repealed, and replaced with "Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations, No. 02 of 2021, all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No. 02 of 2021 issued under Sections 32A to 32E of the Monetary Law Act with effect from 06th August 2021.

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

a) Deposit liabilities to Member Institutions.

b) Deposit liabilities to Directors, Key Management Personnel and other related parties as defined in Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks.

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

d) Deposit liabilities falling within the meaning of 'Abandoned Property' in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka.

Licensed commercial banks are required to pay a premium of 0.10% per annum on eligible deposit liabilities if the Bank maintains a Capital Adequacy Ratio of 14% or above as at the end of the immediately preceded financial year and a premium of 0.125% per annum on eligible deposit liabilities for all other licensed commercial banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

3. NEW ACCOUNTING STANDARDS

The following new accounting standards and amendments/improvements to existing standards have been issued by the Institute of Chartered Accountants of Sri Lanka (CASL), but are not yet effective as at 31st December 2021.

3.1 Standards Issued but Not Yet Effective

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

SLFRS 17 - Insurance Contracts

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

SLFRS 17 is effective for annual reporting periods beginning on or after 01st January 2023.

Amendments to LKAS 37 - Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Costs of Fulfilling a Contract

The amendment specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. This apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 01st January 2022. Earlier application is permitted.

Amendments to LKAS 16 - Property, Plant and Equipment: Proceeds before Intended Use

The amendment prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in Profit or Loss.

The amendment is effective for annual reporting periods beginning on or after 01st January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Amendments to SLFRS 3 - Business Combinations: Updating a reference to conceptual framework

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting without significantly changing its requirements. An exception was also added to the recognition principle of SLFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of LKAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, it was decided to clarify existing guidance in SLFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 01st January 2022 and apply prospectively.

Notes to the Financial Statements

SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of SLFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to SLFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of SLFRS 1.

The amendment is effective for annual reporting periods beginning on or after 01st January 2022 with earlier adoption permitted.

SLFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 01st January 2022 with earlier adoption permitted.

LKAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of LKAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of LKAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 01st January 2022 with earlier adoption permitted.

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

4 NET INTEREST INCOME

Accounting Policy

Interest Income

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit impaired assets.

When a financial asset becomes credit impaired and is, therefore, regarded as 'Stage 3' asset, the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 37.2.2.1) and is no longer credit impaired, the Bank reverts to calculating interest income on a gross basis.

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

For Purchased or Originated Credit Impaired (POCI) financial assets (as set out in Note 2.9.6.1), the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI asset.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in 'Interest Income'.

Interest Expense

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

	2021 Rs 000	2020 Rs 000
Interest Income		
Placements with Banks	29,542	4,468
Financial Assets at Amortised Cost		
-Loans and Advances	16,023,300	16,228,765
-Debt and Other Instruments	2,737,972	2,570,586
Financial Assets at Fair Value through Profit or Loss	7,487	17,194
	18,798,301	18,821,013
Interest Expense		
Due to Banks	70,012	48,512
Financial Liabilities at Amortised Cost		
-Due to Depositors	8,070,833	10,268,947
-Due to Debt Securities Holders	806,124	993,471
Lease Liabilities (Note 22.2)	94,796	87,495
Subordinated Debentures	114,800	52,839
	9,156,565	11,451,264
Net Interest Income	9,641,736	7,369,749

Notes to the Financial Statements

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

	2021 Rs 000	2020 Rs 000
Interest Income	2,745,459	2,443,084
Interest Expense	(17,056)	(143,902)
Net Interest Income from Government Securities	2,728,403	2,299,182

Interest Income from Sri Lanka Government Securities and Related Financial Instruments includes Interest Income from Treasury Bills, Treasury Bonds, Sri Lanka Development Bonds, International Sovereign Bonds, Revers Repurchase Agreements and other related instruments.

Interest Expense from Sri Lanka Government Securities and Related Financial Instruments includes Interest Expense for Repurchase Agreements and other related instruments.

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

	2021 Rs 000	2020 Rs 000
Interest Income	18,790,814	18,803,819
Interest Expense	(9,156,565)	(11,451,264)
Net Interest Income	9,634,249	7,352,555

4.3 Interest Accrued on Impaired Loans and Advances

The Bank's interest income for the year 2021 includes interest accrued on impaired loans and advances of Rs.16,892,394/- (2020 - Rs. 27,869,760/-)

5 NET FEE AND COMMISSION INCOME

Accounting Policy

Fee and Commission Income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income comprises mainly of fees received from customers for guarantees and other services provided by the Bank together with foreign and domestic tariffs. Such income is recognised as revenue as the services are provided. Fee income can be divided into the following two categories:

a) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on straight line basis.

b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Fee and Commission Expenses

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

	2021 Rs 000	2020 Rs 000
Net Fee and Commission Income		
Fee and Commission Income	1,821,228	1,346,033
Fee and Commission Expenses	(38,295)	(69,969)
	1,782,933	1,276,064
Comprising		
Loans	999,729	635,865
Cards	364,647	301,062
Trade and Remittance	257,911	223,890
Deposits	93,884	66,263
Guarantees	66,762	48,984
	1,782,933	1,276,064

6 NET GAINS FROM TRADING

Accounting Policy

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

	2021 Rs 000	2020 Rs 000
Equities - Unit Trusts		
Realised Gains	223,295	255,879
Debt Securities		
Realised Gains/(Losses)	(7,782)	82,016
Foreign Exchange - Net Forward Forex Gains/(Losses)	(123,256)	140,985
	92,257	478,880

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

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

Notes to the Financial Statements

7 OTHER OPERATING INCOME

Accounting Policy

Dividend Income

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

Other Income

Other Income is recognised on an accrual basis.

	2021 Rs 000	2020 Rs 000
Gains on Revaluation of Foreign Exchange	334,111	217,720
Recovery of Loans Written-off	44,211	13,139
Other Income	13,426	4,640
	391,748	235,499

8 IMPAIRMENT CHARGES

Accounting Policy

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

	2021 Rs 000	2020 Rs 000
Cash and Cash Equivalents (Note 14.1)	4,159	1,744
Loans and Advances - at Amortised Cost (Note 18.6)	1,621,317	1,345,700
Debt and Other Instruments - at Amortised Cost (Note 19.3)	719,499	242,322
Financial Guarantees (Note 29.2)	17,320	6,353
Documentary Credit (Note 29.2)	8,157	(77)
Total Impairment Charge	2,370,452	1,596,042

8.1 Impairment Charges - Stage wise Analysis

	2021				2020			
	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Cash and Cash Equivalents	4,159	-	-	4,159	1,744	-	-	1,744
Loans and Advances - at Amortised Cost	92,606	524,463	1,004,248	1,621,317	135,066	650,554	560,080	1,345,700
Debt and Other Instruments - at Amortised Cost	719,499	-	-	719,499	242,322	-	-	242,322
Financial Guarantees	17,320	-	-	17,320	6,353	-	-	6,353
Documentary Credit	8,157	-	-	8,157	(77)	-	-	(77)
Total	841,741	524,463	1,004,248	2,370,452	385,408	650,554	560,080	1,596,042

9 PERSONNEL EXPENSES

Accounting Policy

Accounting Policies relating to short term employee benefits, defined contribution plan expenses & defined benefit plan expenses are disclosed under Note 2.9.12.2 and 30 respectively.

	2021	2020
	Rs 000	Rs 000
Salaries, Wages and Other Related Expenses	1,913,029	1,623,407
Defined Contribution Plan Expenses - Employees' Provident Fund	164,111	161,774
- Employees' Trust Fund	39,033	38,339
Defined Benefit Plan Expenses (Note 30.1)	68,097	76,042
Amortisation of Pre-paid Staff Cost (Note 24.1)	43,089	43,203
	2,227,359	1,942,765

10 OTHER OPERATING EXPENSES

Accounting Policy

Accounting Policies relating to other operating expenses are disclosed under Note 2.9.1.2

	2021	2020
	Rs 000	Rs 000
Directors' Emoluments (Note 10.1)	67,670	61,372
Auditors' Remuneration	4,690	4,884
Professional and Legal Expenses	24,571	22,286
Depreciation on Property, Plant and Equipment (Note 21.2)	140,884	154,331
Amortisation of Right-of-Use Assets (Note 22.1)	268,911	218,663
Amortisation of Intangible Assets (Note 23.2)	50,044	43,624
Administration and Establishment Expenses	614,958	640,485
Business Development Expenses	266,057	239,773
Other Expenses (Note 10.2)	961,848	907,766
	2,399,633	2,293,184

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

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

11 VALUE ADDED TAX ON FINANCIAL SERVICES

Accounting Policy

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

Revision of Tax Rate for VAT on Financial Services

The Budget 2022 which was passed in Parliament includes proposals to increase the Value Added Tax on Financial Services to be increased from 15% to 18%. This rate increment will be applicable only for a period of one year commencing on 01st January 2022 and ending on 31st December 2022. However, relevant legislations are yet to be passed in the Parliament and also guidelines to be issued on the collection mechanism.

	2021	2020
	Rs 000	Rs 000
Value Added Tax on Financial Services	877,577	690,035
	877,577	690,035

Notes to the Financial Statements

12 INCOME TAX EXPENSE

Accounting Policy

Current tax

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

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

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

Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences. The Bank has computed deferred tax at the rates based on substantively enacted at the reporting date, which is the statutory rate specified in the Inland Revenue Act as of the reporting date.

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

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

Deferred tax 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.

The major components of income tax expense for the years ended 31st December 2021 and 31st December 2020 are:

	2021 Rs 000	2020 Rs 000
Current Tax Expense		
Current Tax Charge of Profit for the Year (Note 12.1)	857,906	895,370
Under/(Over) Provisions in respect of Previous Years (Note 12.1)	97,251	(124,566)
Total Current Tax Expense	955,157	770,804
Deferred Tax Expense		
Relating to Origination and Reversal of Temporary Differences (Note 12.1)	(30,438)	19,194
Relating to Tax Rate Change (Note 12.1)	33,576	-
Total Deferred Tax Expense (Note 12.2)	3,138	19,194
Total Income Tax Expense (Profit or Loss) - (Note 12.1)	958,295	789,998

12.1 Reconciliation of the Total Tax Expense

A reconciliation between the tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 31st December 2021 and 31st December 2020 is as follows:

	2021 Rs 000	2020 Rs 000
Accounting Profit Before Tax	4,033,653	2,838,166
Statutory Income Tax Rate at 24% (2020-28%)	968,077	794,687
Non-Deductible Expenses and Amounts	981,697	984,763
Deductible Expenses and Amounts	(983,699)	(756,017)
Income Not Subject to Tax	(108,169)	(99,184)
Tax Effect of Business Losses	-	(28,879)
Current Tax on Profits	857,906	895,370
Under/(Over) Provisions in respect of Previous Years	97,251	(124,566)
Total Current Tax Expense	955,157	770,804
Recognition of Deferred Tax on Temporary Differences	(30,438)	19,194
Recognition of Deferred Tax on Income Tax Rate Change	33,576	-
Total Deferred Tax Expense (Note 12.2)	3,138	19,194
Total Income Tax Expense	958,295	789,998
Effective Tax Rate	23.76%	27.83%
Effective Tax Rate (Excluding Deferred Tax)	23.68%	27.16%

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

12.2 Deferred Tax

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

	2021			2020		
	Deferred Tax Liabilities/(Assets) (Statement of Financial Position)	Statement of Comprehensive Income		Deferred Tax Liabilities/(Assets) (Statement of Financial Position)	Statement of Comprehensive Income	
		Profit or Loss	Other Comprehensive Income		Profit or Loss	Other Comprehensive Income
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Lease Rentals Receivable	221,992	(89,569)	-	311,561	(59,858)	-
Property, Plant and Equipment	401,872	(19,696)	(53,311)	474,879	(10,939)	10,498
Intangible Assets	44,391	(16,728)	-	61,119	(5,088)	-
Defined Benefit Plan Obligation	(90,444)	8,806	8,738	(107,989)	(13,794)	(2,638)
Impairment on Financial Assets	(459,410)	120,325	-	(579,735)	79,994	-
Tax Losses	-	-	-	-	28,879	-
Total	118,401	3,138	(44,573)	159,835	19,194	7,860

Notes to the Financial Statements

12.3 Retrospective Application of Income Tax Legislations

The Inland Revenue (Amendment) Act was passed in Parliament on 04th May 2021 and certified by the Honorable Speaker on 13th May 2021. Accordingly, the income tax rate of 28% was reduced to 24%. Both income tax and deferred tax provisions for the year ended 31st December 2020 were calculated at the rate of 28% on the basis that the said amendment was not considered to be 'substantially enacted' as at 31st December 2020 as per LKAS 12.

Accordingly, the Bank has applied 24% for the computation of current and deferred tax for the year ended 31st December 2021. Further, the current tax liability for taxable period commencing on or after 01st January 2020 and the net deferred tax asset outstanding as at 31st December 2020 were also reassessed at 24%. As such, the Bank accounted for current tax and deferred tax for the year 2021 in accordance with the guideline issued by CA Sri Lanka on the 'Application of Tax Rates in Measurement of Current Tax and Deferred Tax in LKAS 12' dated 23rd April 2021.

13 EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary share holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted Earnings Per Share is calculated by dividing the profit attributable to ordinary share holders of the Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As there were no potential ordinary shares outstanding at the year end, diluted earnings per share is equal to the basic earnings per share for the year.

The income and share data used in the basic/diluted earnings per share calculations are detailed below;

	2021	2020
Profit Attributable to Ordinary Shareholders (Rs 000)	3,075,358	2,048,168
Weighted Average Number of Ordinary Shares in Issue (Note 32)	442,561,629	442,561,629
Basic/Diluted Earnings Per Share (Rs.)	6.95	4.63

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

There were no dividend payments during the year (2020 - Nil).

14 CASH AND CASH EQUIVALENTS

	2021 Rs 000	2020 Rs 000
Cash in Hand (Note 39)	1,720,424	2,663,080
Balances with Foreign Banks (Note 14.1)	504,952	254,208
Less: Allowance for Impairment Losses (Note 14.1)	(7,284)	(3,125)
	2,218,092	2,914,163

14.1 Allowance for Impairment Losses

Balances with Foreign Banks

The table below shows the credit quality and the maximum exposure to credit risk based on the year end stage classification. The amounts presented are gross of impairment allowances. Accounting policies on stage classification of balances with foreign banks and details of ECL calculation methodologies at each stage are set out in Note 2.9.6.1 and 2.9.6.2.

Stage Classification

	2021 Rs 000	2020 Rs 000
Balances with Foreign Banks	504,952	254,208
	504,952	254,208

All balances held with foreign banks at the year end were 'Stage 1' assets.

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

Gross Carrying Amount

	2021		
	Balance as at 01/01/2021 Rs 000	Net Increase / (Decrease) during the Year Rs 000	Balance as at 31/12/2021 Rs 000
Balances with Foreign Banks	254,208	250,744	504,952
	254,208	250,744	504,952

ECL Allowances

	2021		
	ECL Allowances as at 01/01/2021 Rs 000	Net Increase / (Decrease) during the Year Rs 000	ECL Allowances as at 31/12/2021 Rs 000
Balances with Foreign Banks	3,125	4,159	7,284
	3,125	4,159	7,284

Gross Carrying Amount

	2020		
	Balance as at 01/01/2020 Rs 000	Net Increase / (Decrease) during the Year Rs 000	Balance as at 31/12/2020 Rs 000
Balances with Foreign Banks	234,373	19,835	254,208
	234,373	19,835	254,208

ECL Allowances

	2020		
	ECL Allowances as at 01/01/2020 Rs 000	Net Increase / (Decrease) during the Year Rs 000	ECL Allowances as at 31/12/2020 Rs 000
Balances with Foreign Banks	1,381	1,744	3,125
	1,381	1,744	3,125

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

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

Notes to the Financial Statements

15 BALANCES WITH CENTRAL BANK OF SRI LANKA

	2021 Rs 000	2020 Rs 000
Statutory Deposit with Central Bank of Sri Lanka (Note 15.1)	4,738,304	2,583,394
Non-Statutory Balance with Central Bank of Sri Lanka (Standing Deposit Facilities)	300,041	7,720,954
	5,038,345	10,304,348

15.1 Statutory Deposit with Central Bank of Sri Lanka

Statutory Deposit with Central Bank of Sri Lanka represents the cash balances that is required to be maintained as per the provisions of the Section 93 of the Monetary Law Act. The minimum cash reserve requirement of Rupee deposit liabilities of Domestic Banking Unit as at 31st December 2021 was 4% (2020 - 2%). The Statutory Deposit with CBSL is not available for use in Bank's day-to-day operations.

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

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year (Note 47).

16 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair value 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.

	2021			2020		
	Assets Rs 000	Liabilities Rs 000	Notional Amount Rs 000	Assets Rs 000	Liabilities Rs 000	Notional Amount Rs 000
Forward Foreign Exchange Contracts and Currency Swaps (Note 41)	4,592	33	16,464,683	93,013	79,005	47,076,208
	4,592	33	16,464,683	93,013	79,005	47,076,208

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the Profit or Loss of the Bank. The Bank's exposure under derivative contracts are closely monitored as part of the overall management of the Bank's market risk.

Forward Foreign Exchange Contracts

Forward Contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in over the counter market and are subject to credit risk and liquidity risk and result in market exposure. The Bank has credit exposure to the counterparties of forward contracts which are settled on gross basis therefore, considered to bear a higher liquidity risk than the futures contracts that are settled on a net basis.

Currency Swaps

Currency Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying foreign currency rate. In a Currency Swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency Swaps are mostly gross-settled.

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

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

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

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, as an asset within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale price is treated as interest income and is accrued over the life of the agreement using the EIR.

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

17.1 Reverse Repurchase Agreements

	2021 Rs 000	2020 Rs 000
Due from;		
Other Financial Institutions	-	1,500,000
Other Counterparties	-	30,441
	-	1,530,441

The Bank holds collateral against reverse repurchase agreements and is permitted to sell or repledge the collateral in case of a default by the owner of the collateral. The fair value of collateral held under reverse repurchase agreements by the Bank as at 31st December 2020 was Rs. 1,727,801,842/-.

17.2 Repurchase Agreements

	2021 Rs 000	2020 Rs 000
Due to;		
Other Financial Institutions	10,000	655,000
Other Counterparties	244,154	243,651
	254,154	898,651

The Bank pledges collateral against repurchase agreements and the respective counterparties are permitted to sell or re-pledge the collateral in case of a default by the Bank. The carrying value of collaterals pledged under repurchase agreements by the Bank as at 31st December 2021 is Rs. 277,502,321/- (2020-Rs. 919,034,811/-) and fair value of collaterals pledged as at 31st December 2021 is Rs. 301,595,049/- (2020-Rs. 1,138,808,350/-).

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

According to the Bank's internal policies, minimum haircuts applicable for each maturity bucket as at 31st December 2021 is given below. The haircuts applied meet the minimum haircut requirements imposed by the CBSL Direction No. 01 of 2019.

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

Notes to the Financial Statements

17.4 Penalties Imposed on the Bank for Non-Compliance

No penalties have been imposed on the Bank for non-compliance with the Direction No. 01 of 2019 during the years ended 31st December 2021 and 31st December 2020.

18 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES

	2021 Rs 000	2020 Rs 000
Gross Loans and Advances		
Stage 1 (Note 18.6)	119,332,479	98,077,090
Stage 2 (Note 18.6)	20,743,930	21,579,354
Stage 3 (Note 18.6)	10,607,615	11,095,334
	150,684,024	130,751,778
Impairment for Expected Credit Losses		
Stage 1 (Note 18.6)	(1,208,740)	(1,116,134)
Stage 2 (Note 18.6)	(1,671,499)	(1,147,036)
Stage 3 (Note 18.6)	(5,434,628)	(5,331,421)
	(8,314,867)	(7,594,591)
Net Loans and Advances	142,369,157	123,157,187

18.1 Product-wise Analysis

	2021 Rs 000	2020 Rs 000
Term Loans	100,358,520	92,181,667
Overdrafts	15,611,229	13,866,114
Trade Finance	4,570,341	2,007,923
Lease Rentals Receivable (Note 42.1)	10,475,359	9,496,585
Others	19,668,575	13,199,489
Total	150,684,024	130,751,778

18.2 Currency-wise Analysis

	2021 Rs 000	2020 Rs 000
Sri Lankan Rupee	142,806,129	120,579,129
United States Dollar	4,912,500	3,789,295
Japanese Yen	1,968,450	4,344,440
Euro	820,451	1,904,614
Great Britain Pound	38,433	38,850
Others	138,061	95,450
Total	150,684,024	130,751,778

18.3 Industry-wise Analysis

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

18.4 Collateralisation-wise Analysis

	2021 Rs 000	2020 Rs 000
Pledged as Collateral	1,061,383	1,516,577
Unencumbered	149,622,641	129,235,201
	150,684,024	130,751,778

18.5 Individually Impaired Loans and Advances

	2021 Rs 000	2020 Rs 000
Gross amount of Loans and Advances, individually determined to be impaired, before deducting Impairment Losses (Note 37.2.8)	4,414,980	4,051,218
Less: Individual Impairment Losses	(3,099,402)	(2,974,955)
Net Exposure	1,315,578	1,076,263
Individually Impaired Loan Cover (Individual Impairment Losses to Gross Individually Impaired Loans & Advances)	70.20%	73.43%
Individually Impaired Loans and Advances Ratio (Individually Impaired Loans and Advances to Gross Loans and Advances)	2.93%	3.10%

18.6 Stage Classification of Gross Loans & Advances and ECL Allowances

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

	2021				2020			
	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Term Loans	80,450,594	13,347,829	6,560,097	100,358,520	72,049,665	13,941,376	6,190,626	92,181,667
Overdrafts	11,224,254	2,193,518	2,193,457	15,611,229	8,815,014	2,530,885	2,520,215	13,866,114
Trade Finance	2,708,800	1,422,819	438,722	4,570,341	1,484,625	84,413	438,885	2,007,923
Lease Rentals Receivable	7,644,679	2,386,275	444,405	10,475,359	5,485,648	3,601,252	409,685	9,496,585
Others	17,304,152	1,393,489	970,934	19,668,575	10,242,138	1,421,428	1,535,923	13,199,489
	119,332,479	20,743,930	10,607,615	150,684,024	98,077,090	21,579,354	11,095,334	130,751,778

There were no Purchased or Originated Credit Impaired (POCI) assets within Loans and Advances as at the year end (2020-Nil).

Notes to the Financial Statements

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

Gross Carrying Amount

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

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

ECL Allowances

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

The increase/(decrease) in ECL's of the portfolios were driven by an increase/(decrease) in the gross size of the portfolio/ exposures, movements between stages as a result of the change in credit risk, changes in Probability of Defaults, Loss Given Defaults, Credit Conversion Factors and changes in economic conditions.

Gross Carrying Amount

	Stage	Balance as at 01/01/2020	Net Increase/ (Decrease) during the Year*	Transfers to Stage 1	Transfers to Stage 2	Transfers to Stage 3	Amounts Written-Off during the Year	Balance as at 31/12/2020
		2020						
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Term Loans	Stage 1	63,625,105	14,756,211	1,073,735	(6,457,984)	(947,402)	-	72,049,665
	Stage 2	5,402,244	2,150,566	(972,083)	7,922,490	(561,841)	-	13,941,376
	Stage 3	7,018,226	(769,717)	(101,652)	(1,464,506)	1,509,243	(968)	6,190,626
Overdrafts	Stage 1	11,484,539	(1,769,853)	804,225	(1,502,458)	(201,439)	-	8,815,014
	Stage 2	3,079,110	(885,079)	(790,253)	1,566,058	(438,951)	-	2,530,885
	Stage 3	2,224,039	(231,260)	(13,972)	(63,600)	640,390	(35,382)	2,520,215
Trade Finance	Stage 1	2,897,210	(1,397,297)	-	-	(15,288)	-	1,484,625
	Stage 2	355,313	(265,901)	-	-	(4,999)	-	84,413
	Stage 3	412,189	6,409	-	-	20,287	-	438,885
Lease Rentals Receivable	Stage 1	3,957,142	1,207,816	1,108,482	(742,836)	(44,956)	-	5,485,648
	Stage 2	4,420,942	(275,449)	(1,095,984)	742,836	(191,093)	-	3,601,252
	Stage 3	249,117	(37,401)	(12,498)	-	236,049	(25,582)	409,685
Others	Stage 1	10,502,694	323,648	160,133	(425,615)	(318,722)	-	10,242,138
	Stage 2	728,377	588,948	(154,021)	428,533	(170,409)	-	1,421,428
	Stage 3	1,146,929	(86,609)	(6,112)	(2,918)	489,131	(4,498)	1,535,923
		117,503,176	13,315,032	-	-	-	(66,430)	130,751,778

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

ECL Allowances

	Stage	Balance as at 01/01/2020	Charge / (Reversals) during the Year	Amounts Written-Off	Balance as at 31/12/2020
		2020			
		Rs 000	Rs 000	Rs 000	Rs 000
Term Loans	Stage 1	302,431	19,815	-	322,246
	Stage 2	204,548	590,819	-	795,367
	Stage 3	2,260,458	(119,250)	(968)	2,140,240
Overdrafts	Stage 1	390,765	26,459	-	417,224
	Stage 2	164,042	(927)	-	163,115
	Stage 3	1,436,746	291,819	(35,382)	1,693,183
Trade Finance	Stage 1	6,398	18	-	6,416
	Stage 2	5,928	(3,422)	-	2,506
	Stage 3	185,349	13,700	-	199,049
Lease Rentals Receivable	Stage 1	15,051	10,155	-	25,206
	Stage 2	33,746	(3,324)	-	30,422
	Stage 3	38,076	52,805	(25,582)	65,299
Others	Stage 1	266,423	78,619	-	345,042
	Stage 2	88,218	67,408	-	155,626
	Stage 3	917,142	321,006	(4,498)	1,233,650
		6,315,321	1,345,700	(66,430)	7,594,591

The increase/(decrease) in ECL's of the portfolios were driven by an increase/(decrease) in the gross size of the portfolio/exposures, movements between stages as a result of the change in credit risk, changes in Probability of Defaults, Loss Given Defaults, Credit Conversion Factors and changes in economic conditions.

There were no financial instruments that considered to have low credit risk, in accordance with SLFRS 9 - Financial Instruments, under Loans and Advances as at the reporting date. (2020-Nil).

The maturity analysis of Loans and Advances at Amortised Cost is given in Note 40.

19 FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

	2021 Rs 000	2020 Rs 000
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds (Note 19.3)	21,309,326	19,905,414
Sri Lanka Government Foreign Currency Securities (Note 19.3)	13,889,435	14,731,760
Less: Allowance for Impairment Losses (Note 19.3)	(1,088,178)	(368,679)
	34,110,583	34,268,495

19.1 Currency wise Analysis (Gross)

	2021 Rs 000	2020 Rs 000
Sri Lankan Rupee	21,309,326	19,905,414
United States Dollar	13,889,435	14,731,760
	35,198,761	34,637,174

19.2 Collateralisation wise Analysis (Gross)

	2021 Rs 000	2020 Rs 000
Pledged as Collateral	277,502	919,035
Unencumbered	34,921,259	33,718,139
	35,198,761	34,637,174

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

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

Stage Classification

	2021		2020	
	Stage 1 Rs 000	Total Rs 000	Stage 1 Rs 000	Total Rs 000
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds	21,309,326	21,309,326	19,905,414	19,905,414
Sri Lanka Government Foreign Currency Securities*	13,889,435	13,889,435	14,731,760	14,731,760
	35,198,761	35,198,761	34,637,174	34,637,174

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

Gross Carrying Amount

	2021			2020		
	Balance as at 01/01/2021 Rs 000	Net Increase / (Decrease) during the Year Rs 000	Balance as at 31/12/2021 Rs 000	Balance as at 01/01/2020 Rs 000	Net Increase / (Decrease) during the Year Rs 000	Balance as at 31/12/2020 Rs 000
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds	19,905,414	1,403,912	21,309,326	12,857,565	7,047,849	19,905,414
Debentures - Quoted	-	-	-	1,619,437	(1,619,437)	-
Sri Lanka Government Foreign Currency Securities*	14,731,760	(842,325)	13,889,435	15,665,886	(934,126)	14,731,760
	34,637,174	561,587	35,198,761	30,142,888	4,494,286	34,637,174

ECL Allowances

	2021			2020		
	Balance as at 01/01/2021	Charge for the Year	Balance as at 31/12/2021	Balance as at 01/01/2020	Charge for the Year	Balance as at 31/12/2020
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Debentures - Quoted	-	-	-	1,021	(1,021)	-
Sri Lanka Government Foreign Currency Securities*	368,679	719,499	1,088,178	125,336	243,343	368,679
	368,679	719,499	1,088,178	126,357	242,322	368,679

The changes in ECL's of the portfolio is driven by increase/(decrease) in the gross size of the portfolio, changes in historical loss experience and deterioration of economic conditions.

There were no financial instruments that considered to have low credit risk, in accordance with SLFRS 9 - Financial Instruments, under Debt and Other Instruments as at the reporting date (2020-Nil).

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

The presentation and classification of previous year have been amended for better presentation and to be comparable of those with current year (Note 47).

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

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021	2020
	Rs 000	Rs 000
Equities - Unquoted (Note 20.1)	3,752	6,158
	3,752	6,158

All unquoted FVOCI instruments are recorded at cost since its fair value cannot be reliably estimated. There is no market for these instruments, and the Bank intends to hold these for long term.

20.1 Equities - Unquoted

	2021		2020	
	No. of Shares	Amount	No. of Shares	Amount
		Rs 000		Rs 000
Credit Information Bureau of Sri Lanka (CRIB)	300	30	300	30
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	3	1,722	8	4,128
Lanka Clear (Private) Limited	100,000	1,000	100,000	1,000
Lanka Financial Services Bureau Limited (LFSB)	100,000	1,000	100,000	1,000
		3,752		6,158

20.2 Currency wise Analysis (Gross)

	2021	2020
	Rs 000	Rs 000
Sri Lankan Rupee	3,752	6,158
	3,752	6,158

Notes to the Financial Statements

20.3 Collateralisation wise Analysis (Gross)

	2021 Rs 000	2020 Rs 000
Unencumbered	3,752	6,158
	3,752	6,158

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

21 PROPERTY, PLANT AND EQUIPMENT

Accounting Policy

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one year.

Basis of Recognition

Property, plant and equipment are recognised, if it is probable that future economic benefits associated with the assets will flow to the Bank and cost of the assets can be reliably measured.

Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. The cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding cost of day-to-day servicing). The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of 'Computer Hardware'. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Cost Model

The Bank applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Bank applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Bank are revalued every three years on a roll over basis or more frequently if the fair values are substantially different from the carrying values to ensure that the carrying values do not differ materially from the fair values at the reporting date.

When asset's carrying value is increased as a result of a revaluation, the increase shall be recognised in 'Other Comprehensive Income' (OCI) and accumulated in equity under the heading of 'Revaluation Reserve'. However, the increase shall be recognised in Profit or Loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in Profit or Loss. If an asset's carrying value is decreased as a result of a revaluation, the decrease shall be recognised in Profit or Loss. However, the decrease shall be recognised in 'Other Comprehensive Income' (OCI) to the extent of any credit balance existing in the 'Revaluation Reserve' in respect of that asset. The decrease recognised in 'Other Comprehensive Income' (OCI) reduces the amount accumulated in equity under the heading of 'Revaluation Reserve'.

A transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation reserve relating to the particular asset being sold/disposed off is transferred to retained earnings upon derecognition.

Subsequent Costs

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying values of the item, if it is probable that the future economic benefits embodied within that part will flow to the Bank and its cost can be reliably measured. The costs of day-to-day servicing of property, plant and equipment are charged to Profit or Loss as incurred. Costs incurred in using or redeploying an item are not included under the carrying values of that item.

Derecognition

The carrying values of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment which is calculated as the difference between the carrying values and the net disposal proceeds is included in Profit or Loss when the item is derecognised.

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

Depreciation

The Bank provides depreciation from the date the assets are available for use up to the date of disposal at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Bank of the different types of assets, except for which are disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held-for-sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Depreciation is calculated using the straight line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. Freehold land is not depreciated. The estimated useful lives are as follows:

Buildings	40 Years
Office Equipment	6 Years
Computer Hardware and Equipment	6-10 Years
Furniture, Fittings and Fixtures	5-10 Years
Motor Vehicles	5 Years

The depreciation methods, useful lives and residual values of assets are reviewed at each financial reporting date. If there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method shall be changed to reflect the changed pattern.

21.1 Cost/Fair Value

	Freehold Land	Freehold Buildings	Office Equipment	Computer Hardware & Equipment	Furniture & Fittings	Motor Vehicles	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
As at 01st January 2021	1,420,100	487,788	441,010	567,178	693,824	20,298	3,630,198
Additions	-	-	14,692	113,782	41,430	298	170,202
Disposals	-	-	(8,049)	(10,906)	(4,631)	-	(23,586)
As at 31st December 2021	1,420,100	487,788	447,653	670,054	730,623	20,596	3,776,814

21.2 Depreciation and Impairment

	Freehold Land	Freehold Buildings	Office Equipment	Computer Hardware & Equipment	Furniture & Fittings	Motor Vehicles	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
As at 01st January 2021	-	4,633	353,935	422,199	523,608	17,941	1,322,316
Depreciation Charge for the Year (Note 10)	-	18,532	28,750	40,000	51,206	2,396	140,884
Disposals	-	-	(7,865)	(10,883)	(3,464)	-	(22,212)
As at 31st December 2021	-	23,165	374,820	451,316	571,350	20,337	1,440,988

There were no impairment losses recognised on Property, Plant and Equipment as at 31st December 2021. (2020-Nil).

Notes to the Financial Statements

21.3 Net Book Value:

	Freehold Land	Freehold Buildings	Office Equipment	Computer Hardware & Equipment	Furniture & Fittings	Motor Vehicles	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
As at 31st December 2020	1,420,100	483,155	87,075	144,979	170,216	2,357	2,307,882
As at 31st December 2021	1,420,100	464,623	72,833	218,738	159,273	259	2,335,826

21.4 There were no capital work-in-progress outstanding as at the Statement of Financial Position Date. (2020- Nil)

21.5 Freehold Land and Buildings - Addresses, Locations and Extents

Address	Extent		31st December 2021 Revalued Amount		31st December 2020 Revalued Amount	
	Land (Perches)	Building (Square Feet)	Land Rs 000	Building Rs 000	Land Rs 000	Building Rs 000
No: 450, Galle Road, Colombo 03	23.66	41,420	561,925	472,188	561,925	472,188
No: 08, Sea Avenue, Colombo 03	18.55	-	338,538	-	338,538	-
No: 10, Sea Avenue, Colombo 03	19.80	-	351,450	-	351,450	-
No: 12 & 12 1/1, Sea Avenue, Colombo 03	9.75	3,900	168,187	15,600	168,187	15,600
Total (Note 36.2)			1,420,100	487,788	1,420,100	487,788

21.6 All Freehold Land and Buildings owned by the Bank have been revalued by J.M.S. Bandara, an Independent Chartered Valuation Surveyor having recent experience of the location and the category of the assets valued. Details of revalued properties are disclosed in Note 21.9. Revaluation surplus arising out of the revaluation has been transferred to Revaluation Reserve.

Significant Unobservable valuation input

Land: Price per perch Rs. 17,250,000 - Rs. 23,750,000

Building : Monthly rent per square feet - Rs. 177.50

Significant increase/decrease in estimated price per perch/rent per square feet would result in a significant higher/lower fair value of land and buildings.

Other fair value related disclosures on revalued Land and Buildings are provided in Note 36.2.

21.7 Review of Valuation for Freehold Land and Buildings as at 31st December 2021

The Bank reviewed the fair value of its Freehold Land and Buildings as at 31st December 2021 which were previously revalued as at 30th September 2020, to ascertain whether there is any significant change in fair value as of the reporting date. The valuer has confirmed that there is no material change to the said land and buildings as at 31st December 2021 since the last revaluation date of 30th September 2020. Accordingly, the revaluation gains have not been accounted as of 31st December 2021 due to the fact that there is no significant deviation in fair value as of the reporting date.

21.8 The carrying value of revalued Land and Buildings, if they were carried at cost less depreciation, would be as follows;

	2021			2020		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Freehold Land	413,653	-	413,653	413,653	-	413,653
Freehold Buildings	223,253	80,434	142,819	223,253	74,853	148,400
Total	636,906	80,434	556,472	636,906	74,853	562,053

21.9 Details of the Land and Buildings stated at revalued amounts as at 31st December 2021 are given below;

Location/Address	Valuer Name	Date of Valuation	Method of Valuation	Land		Building	
				Cost	Revalued Amount	Cost	Revalued Amount
				Rs 000	Rs 000	Rs 000	Rs 000
No: 450, Galle Road, Colombo 03	J.M.S. Bandara	30th September 2020	Investment Method/ Income Method	183,970	561,925	212,333	472,188
No: 08, Sea Avenue, Colombo 03	J.M.S. Bandara	30th September 2020	Investment Method/ Income Method	106,167	338,538	-	-
No: 10, Sea Avenue, Colombo 03				82,437	351,450	-	-
No: 12 & 12 1/1, Sea Avenue, Colombo 03				41,079	168,187	10,920	15,600

21.10 A class wise analysis of the cost/fair value of fully depreciated Property, Plant and Equipment of the Bank which are still in use at the date of the Statement of Financial Position are as follows;

	2021	2020
	Rs 000	Rs 000
Office Equipment	282,698	270,277
Computer Hardware and Equipment	336,945	219,675
Furniture & Fittings	366,328	288,061
Motor Vehicles	20,298	98
	1,006,269	778,111

21.11 There were no Property, Plant and Equipment identified as temporarily idle as at the date of the Statement of Financial Position (2020-Nil).

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

	2021	2020
	Rs 000	Rs 000
Computer Hardware and Equipment	17,810	16,627

21.13 There were no restrictions on the title of Property, Plant and Equipment as at the date of the Statement of Financial Position (2020 - Nil).

21.14 There were no items of Property, Plant and Equipment pledged as securities against liabilities as at the date of the Statement of Financial Position (2020 - Nil).

21.15 There were no capitalised borrowing costs relating to acquisition of Property, Plant and Equipment during the year (2020 - Nil).

Notes to the Financial Statements

22 RIGHT-OF-USE (ROU) ASSETS

Accounting Policy

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

Bank as a Lessee

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

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

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

Determination of the Lease Term for Lease Contracts with Renewal and Termination Options (Bank as a Lessee)

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

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

Estimating the Incremental Borrowing Rate

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

Bank as a Lessor

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

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

	2021 Rs 000	2020 Rs 000
As at 01st January	983,365	911,837
Impact of New Leases	801,508	449,547
Leases Expired and Modifications during the Year	(138,556)	(159,356)
Amortisation Charge for the Year (Note 10)	(268,911)	(218,663)
As at 31st December	1,377,406	983,365

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

	2021 Rs 000	2020 Rs 000
As at 01st January	888,025	824,180
Impact of New Leases	755,568	429,617
Accretion of Interest (Note 4)	94,796	87,495
Leases Expired and Modifications during the Year	(83,995)	(172,545)
Rentals Paid during the year	(287,956)	(280,722)
As at 31st December (Note 29)	1,366,438	888,025

22.3 Maturity Analysis of Lease Liabilities

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

	2020			
	Amount Repayable within 1 Year Rs 000	Amount Repayable after 1 Year but less than 5 Years Rs 000	Amount Repayable after 5 Years Rs 000	Total Rs 000
Gross Lease	333,309	962,505	165,172	1,460,986
Finance Charges Allocated to Future Periods	(130,715)	(377,470)	(64,776)	(572,961)
Net Lease Liabilities	202,594	585,035	100,396	888,025

Notes to the Financial Statements

22.4 Sensitivity on Assumption in ROU Assets

The following table demonstrates the sensitivity to a possible changes in key assumptions employed with all other variables held constant in the ROU Assets and lease liabilities as at 31st December 2021. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the incremental borrowing rate on the Profit or Loss and ROU assets/ lease liabilities for the year.

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

	2020			
	Sensitivity Effect on Statement of Financial Position		Sensitivity Effect on Statement of Comprehensive Income (Profit or Loss)	
	ROU Assets	Lease Liabilities	Depreciation	Interest Expense
	Rs 000	Rs 000	Rs 000	Rs 000
Increase/(Decrease) in Incremental Borrowing Rate				
1%	(35,190)	(35,248)	(4,517)	5,343
(1%)	36,924	37,001	4,700	(5,768)

23 INTANGIBLE ASSETS

Accounting Policy

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

Basis of Recognition

An intangible asset is recognised only when it is probable that the expected future economic benefits that are attributable to it will flow to the Bank and its cost can be measured reliably.

Measurement

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

Amortisation

Intangible assets are amortised on straight line basis in Profit or Loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Bank. The estimated useful lives are as follows:

Core Banking Software Licenses	15 years
Other Software	8 years

The above rates are also comparable with the rates applied in the previous year. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Expenditure on an intangible item that was initially recognised as an expense by the Bank in previous financial years is not recognised as part of the cost of that intangible asset at a later date.

Retirement and Disposal

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying value of the asset and are recognised in Profit or Loss.

Computer Software

23.1 Cost

	Total Rs 000
As at 01st January 2021	682,105
Additions	24,210
Disposals	-
As at 31st December 2021	706,315

23.2 Amortisation

	Total Rs 000
As at 01st January 2021	335,408
Amortisation Charge for the Year (Note 10)	50,044
Disposals	-
As at 31st December 2021	385,452

23.3 Net Book Value

	Total Rs 000
As at 31st December 2020	346,697
As at 31st December 2021	320,863

23.4 Intangible Assets include the Cost of Core Banking Software License and Other Software.

23.5 There were no Intangible Asset items pledged as a security against liabilities as at the date of the Statement of Financial Position (2020 - Nil).

23.6 There were no borrowing costs directly related to intangible assets acquired during the year (2020 - Nil).

23.7 There were no impairment losses recognised to Profit or Loss during the year with regard to Intangible Assets (2020 - Nil).

Notes to the Financial Statements

24 OTHER ASSETS

	2021 Rs 000	2020 Rs 000
Deposits and Prepayments	236,407	206,345
Pre-paid Staff Cost (Note 24.1)	366,000	389,588
Other Receivables (Note 24.2)	1,130,647	432,726
	1,733,054	1,028,659

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

	2021 Rs 000	2020 Rs 000
As at 01st January	389,588	408,031
Arose due to new granting	47,023	53,874
Reversals due to settlements	(27,522)	(29,114)
Amortisation charge for the year (Note 9)	(43,089)	(43,203)
As at 31st December	366,000	389,588

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

25 DUE TO BANKS

	2021 Rs 000	2020 Rs 000
Call Money Borrowings	2,300,378	755,246
Refinance Borrowings	1,611,571	2,072,753
Balances with Foreign Banks	2,446	35,377
	3,914,395	2,863,376

The Bank has not had any defaults with regard to capital, interest or any other term/condition of above borrowings during the year (2020-Nil).

The maturity analysis of Due to Banks is given in Note 40.

26 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS

26.1 Product Wise Analysis

	2021 Rs 000	2020 Rs 000
Demand Deposits	7,354,603	5,847,739
Savings Deposits	34,905,340	28,339,136
Time Deposits	101,519,268	102,766,776
Certificate of Deposits	2,408,089	3,825,672
Margin Deposits	246,516	300,384
	146,433,816	141,079,707

26.2 Currency Wise Analysis

	2021 Rs 000	2020 Rs 000
Sri Lankan Rupee	132,441,635	131,388,842
United States Dollar	10,636,528	7,789,043
Great Britain Pound	616,229	473,085
Australian Dollar	835,705	919,143
Euro	1,054,964	339,624
Others	848,755	169,970
	146,433,816	141,079,707

The maturity analysis of Financial Liabilities at Amortised Cost - Due to Depositors is given in Note 40.

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

	2021 Rs 000	2020 Rs 000
Unsecured Term Facility Borrowings	12,978,490	10,637,140
	12,978,490	10,637,140

The Bank has not had any defaults with regard to capital, interest or any other term/condition of above borrowings during the year. (2020-Nil)

27.1 Unsecured Term Facility Borrowings - Capital

	Senior		Total
	Fixed Rs 000	Floating Rs 000	Rs 000
As at 01st January 2021	4,151,444	6,424,500	10,575,944
Received during the Year (Note 39.6)	2,631,517	4,212,250	6,843,767
Repayments during the Year (Note 39.6)	(2,061,094)	(2,735,300)	(4,796,394)
Effect of movement in Foreign Exchange Rate (Note 39.6)	-	315,700	315,700
As at 31st December 2021 (Note 27.2)	4,721,867	8,217,150	12,939,017

Notes to the Financial Statements

27.2 Details of Unsecured Term Facility Borrowings as at 31st December 2021 - Capital

Lender	Receipt Date	Maturity Date	Rate of Interest	Amount Outstanding	
				Original Currency 000	Local Currency Rs 000
GCPF	03rd September 2015	02nd September 2022	6 Month LIBOR + 4%	USD 10,000	2,030,000
GCPF	06th October 2017	07th October 2024	6 Month LIBOR + 3.75%	USD 2,000	406,000
GCPF	22nd December 2017	07th October 2024	6 Month LIBOR + 3.75%	USD 5,000	1,015,000
MSME	06th August 2020	06th August 2024	5.10%	USD 3,500	710,500
MSME	16th June 2020	16th June 2024	10.00%	Rs. 1,433,750	1,433,750
MSME	21st May 2021	21st Feb 2025	6 Month LIBOR + 4.50%	USD 10,750	2,182,250
MSME	28th May 2021	05th May 2022	2.50%	EUR 3,300	758,829
MSME	05th October 2021	16th June 2024	10.00%	Rs. 451,688	451,688
MSME	17th December 2021	17th December 2024	6 Month LIBOR + 4.50%	USD 10,000	2,030,000
Blue Orchard Micro Finance Fund	27th July 2021	27th July 2024	5.00%	USD 2,000	406,000
COVID-19 Emerging and Frontier Markets MSME Support Fund SCSp	09th July 2021	09th July 2024	5.00%	USD 5,000	1,015,000
National Savings Bank	30th March 2020	30th March 2022	Weekly AWPLR + 2% (Re-priced semi annually)	Rs. 250,000	250,000
National Savings Bank	28th April 2020	30th March 2022	Weekly AWPLR + 2% (Re-priced semi annually)	Rs. 250,000	250,000
					12,939,017

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

The maturity analysis of Financial Liabilities at Amortised Cost - Due to Debt Securities Holders is given in Note 40.

The presentation and classification of previous year have been amended for better presentation and to be comparable of those with current year (Note 47).

28 OTHER PROVISIONS AND ACCRUALS

	2021 Rs 000	2020 Rs 000
Utility Payables	99,410	97,755
Other Accruals	96,783	113,109
	196,193	210,864

29 OTHER LIABILITIES

	2021 Rs 000	2020 Rs 000
Cheques Pending Realisation	644	9,307
Claims Payable	577,223	248,096
Allowance for Impairment (ECL) on Financial Guarantees and Documentary Credit (Note 29.2)	44,780	19,303
Lease Liabilities (Note 22.2)	1,366,438	888,025
Other Creditors (Note 29.1)	2,571,087	2,366,316
	4,560,172	3,531,047

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year (Note 47).

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

29.2 Provision for Impairment (ECL) on Financial Guarantees and Documentary Credit

	ECL Allowances as at 01/01/2021	Charge/ (Reversal) for the Year	ECL Allowances as at 31/12/2021	ECL Allowances as at 01/01/2020	Charge/ (Reversal) for the Year	ECL Allowances as at 31/12/2020
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Guarantees	13,202	17,320	30,522	6,849	6,353	13,202
Documentary Credit	6,101	8,157	14,258	6,178	(77)	6,101
	19,303	25,477	44,780	13,027	6,276	19,303

The nominal values of Financial Guarantees and Documentary Credit are disclosed in Note 41.

All Financial Guarantees and Documentary Credit outstanding at the year end are 'Stage 1' exposures (2020-Stage 1).

The changes in ECLs of the Financial Guarantees and Documentary Credit were driven by the changes in gross size of the portfolios, changes in historical loss experience and changes in economic conditions.

30 RETIREMENT BENEFIT OBLIGATIONS

Accounting Policy

Defined Contribution Plan Costs – Employees' Provident Fund and Employees' Trust Fund

Defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to a defined contribution plan are recognised under the 'Personnel Expenses' in the Profit or Loss in the periods during which services are rendered by employees. Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with the respective statutes and regulations. Accordingly, the Bank contributes 12% - 15% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and is recognised as an expense under 'Personnel Expenses'.

Defined Benefit Plan - Gratuity

A defined benefit plan is a post- employment benefit plan other than a defined contribution plan. The liability recognised in the Statement of Financial Position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the 'Projected Unit Credit Method 'as recommended by LKAS 19 – Employee Benefits and resulting actuarial gains/losses are recognised in full in the Other Comprehensive Income (OCI). The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates that are denominated in the currency in which the benefits will be paid and that have terms of maturity approximating to the terms of the liability. Provision has been made in the Financial Statements for retiring gratuities from the first year of service for all employees, in conformity with LKAS 19 - Employee Benefits. However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for payment to an employee arises only after the completion of 5 years continued service.

The amounts recognised in the Statement of Comprehensive Income in respect of Defined Benefit Plan Costs are as follows;

30.1 Defined Benefit Plan Expenses

	2021	2020
	Rs 000	Rs 000
Current Service Cost (Note 30.2)	41,100	43,343
Interest Cost (Note 30.2)	26,997	32,699
Components recognised in Profit or Loss (Note 9)	68,097	76,042
Remeasurement of Net Defined Benefit Obligations		
Actuarial (Gains)/Losses (Note 30.2)	(36,409)	9,421
Components recognised in Other Comprehensive Income	(36,409)	9,421

Notes to the Financial Statements

30.2 Movement in the Defined Benefit Plan - Retiring Gratuity Obligation

The movements in the present value of the Defined Benefit Plan Obligation are as follows:

	2021 Rs 000	2020 Rs 000
As at 01st January	385,674	326,988
Current Service Cost	41,100	43,343
Interest Cost	26,997	32,699
Actuarial (Gains)/Losses due to Changes in Assumptions	(36,409)	9,421
Benefits Paid during the Year	(40,511)	(26,777)
As at 31st December	376,851	385,674

Actuarial Valuation of Retiring Gratuity Obligation as at 31st December 2021 was carried out by Mr. Pushpakumara Gunasekera, Associate of Institute of Actuaries of Australia on behalf of Messrs. Smiles Global (Pvt) Limited., a firm of professional actuaries using "Projected Unit Credit Method" as recommended by LKAS 19-'Employee Benefits'.

The principal assumptions used in determining the Retiring Benefit Obligation are given below;

	2021	2020
Discount Rate	11.5% p.a	7% p.a
Future Salary Increment Rate	9% p.a.	6% p.a
Normal Retirement Age (Note 30.3)	57-60 Years	55 Years
Staff Turnover Rate	8% p.a.	15% p.a.
Mortality	1967-70 Mortality table issued by Institute of Actuaries, London	1967-70 Mortality table issued by Institute of Actuaries, London

30.3 Revision in Minimum Retirement Age

The retirement age used for the actuarial valuation as at 31st December 2021 is based on the following table which is in compliance with the Minimum Retirement Age of Workers Act No. 28 of 2021.

Age of worker as at the date of Act coming into operation	Minimum Retirement Age
54 or above and below 55 years	57 years
53 or above and below 54 years	58 years
52 or above and below 53 years	59 years
Below 52 years	60 years

Defined Benefit Plan Obligation is not externally funded, hence no contributions are expected for the year 2022. Actuarial Gains/(Losses) on Defined Benefit Plan are recognised in Other Comprehensive Income for the year.

The presentation and classification of previous year have been amended for better presentation and to be comparable of those with current year (Note 47).

30.4 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible change in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligation measurement as at the reporting date. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment rate on the Profit or Loss and Retiring Gratuity obligation for the year.

		2021		2020	
Increase/(Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Other Comprehensive Income (OCI)	Sensitivity Effect on Defined Benefit Obligation	Sensitivity Effect on Statement of Other Comprehensive Income (OCI)	Sensitivity Effect on Defined Benefit Obligation
		Rs 000	Rs 000	Rs 000	Rs 000
1%	-	24,479	(24,479)	17,111	(17,111)
(1%)	-	(27,821)	27,821	(18,824)	18,824
-	1%	(29,989)	29,989	(20,640)	20,640
-	(1%)	26,759	(26,759)	19,083	(19,083)

30.5 Maturity Profile of Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at the date of the Statement of the Financial Position is given below;

	2021	2020
Weighted Average Duration of Defined Benefit Obligation (Years)	6.44	5.73
Average Time to Benefit Payout (Years)	10.52	6.10

30.6 Distribution of Defined Benefit Obligation Over Future Lifetime

The following table demonstrates distribution of the future working lifetime of the Defined Benefit Obligation as at the date of the Statement of Financial Position.

	2021	2020
	Rs 000	Rs 000
Less than 1 year	13,353	24,888
Between 1 - 2 years	6,553	8,267
Between 2 - 5 years	27,557	96,391
Over 5 years	329,388	256,128
	376,851	385,674

Notes to the Financial Statements

31 SUBORDINATED DEBENTURES

Accounting Policy

Subordinated debentures represent funds borrowed for long term funding purposes which are subordinated to the other claims. Subsequent to initial recognition, subordinated debentures are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the profit or loss. Gains and losses are recognised in the profit or loss when the liabilities are de-recognised.

31.1 Amortised Cost

	2021 Rs 000	2020 Rs 000
Unlisted, Unsecured, Subordinated, Redeemable Debentures	872,839	872,839
	872,839	872,839

All above debentures are denominated in Sri Lankan Rupees.

31.2 Unlisted, Unsecured, Subordinated, Redeemable Debentures

2020/25 Issue

Debentures outstanding as at 31st December 2021, includes of 8,200,000 Unlisted, Unsecured, Subordinated, Redeemable Debentures of Rs. 100/- each issued by the Bank in 2020, details of which are given below:

Debenture Category	Interest Rate	Interest Payable Frequency	Issued Date	Maturity Date	Face Value Rs 000
2020/25 - Fixed Rate	14% p.a	Semi-Annually	17.07.2020	16.07.2025	820,000

The Bank has not had any defaults with regard to capital, interest or any other term/condition of above debentures during the year. (2020-Nil)

The maturity analysis of these debentures is given in Note 40.

32 STATED CAPITAL

Ordinary Voting Shares

	2021		2020	
	No. of Shares	Amount Rs 000	No. of Shares	Amount Rs 000
As at 01st January	442,561,629	3,614,253	442,561,629	3,614,253
Shares Issued during the Year	-	-	-	-
As at 31st December	442,561,629	3,614,253	442,561,629	3,614,253

33 REVALUATION RESERVE

	Rs 000
As at 01st January 2020	944,659
Revaluation of Freehold Land and Buildings	26,995
Realisation of Revaluation Reserve	(8,933)
As at 01st January 2021	962,721
Deferred Tax Effect on Revision of Statutory Income Tax Rate	53,311
Realisation of Revaluation Reserve	(9,567)
As at 31st December 2021	1,006,465

34 STATUTORY RESERVE FUND

	Rs 000
As at 01st January 2020	538,717
Transferred during the Year	102,408
As at 01st January 2021	641,125
Transferred during the Year	153,768
As at 31st December 2021	794,893

34.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required by Section 20 (1) & (2) of the Banking Act No. 30 of 1988. A sum equivalent to 5% of the Profit after Tax (Profit for the year) should be transferred to the Statutory Reserve Fund until the reserve is equal to 50% of the Stated Capital of the Bank and thereafter a sum equivalent to 2% of such profits until the amount of reserve is equal to the Stated Capital of the Bank. This Statutory Reserve Fund will be used only for the purpose specified in Section 20 (2) of the Banking Act No. 30 of 1988.

35 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

Financial assets and financial liabilities are measured on an on-going basis at either fair value or amortised cost. The summary of significant accounting policies in Note 2 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category as defined in SLFRS 9 - Financial Instruments and by Statement of Financial Position headings;

As at 31st December 2021	Financial Assets at Fair Value through Other Comprehensive Income	Financial Assets and Liabilities at Amortised Cost	Derivative Financial Instruments at Fair Value	Total
	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets				
Cash and Cash Equivalents	-	2,218,092	-	2,218,092
Balances with Central Bank of Sri Lanka	-	5,038,345	-	5,038,345
Derivative Financial Instruments	-	-	4,592	4,592
Loans and Advances	-	142,369,157	-	142,369,157
Debt and Other Instruments	-	34,110,583	-	34,110,583
Financial Assets at FVOCI	3,752	-	-	3,752
Total Financial Assets	3,752	183,736,177	4,592	183,744,521
Financial Liabilities				
Due to Banks	-	3,914,395	-	3,914,395
Repurchase Agreements	-	254,154	-	254,154
Derivative Financial Instruments	-	-	33	33
Due to Depositors	-	146,433,816	-	146,433,816
Due to Debt Securities Holders	-	12,978,490	-	12,978,490
Subordinated Debentures	-	872,839	-	872,839
Other Liabilities	-	1,437,148	-	1,437,148
Total Financial Liabilities	-	165,890,842	33	165,890,875

Notes to the Financial Statements

As at 31st December 2020	Financial Assets at Fair Value through Other Comprehensive Income Rs 000	Financial Assets and Liabilities at Amortised Cost Rs 000	Derivative Financial Instruments at Fair Value Rs 000	Total Rs 000
Financial Assets				
Cash and Cash Equivalents	-	2,914,163	-	2,914,163
Balances with Central Bank of Sri Lanka	-	10,304,348	-	10,304,348
Reverse Repurchase Agreements	-	1,530,441	-	1,530,441
Derivative Financial Instruments	-	-	93,013	93,013
Loans and Advances	-	123,157,187	-	123,157,187
Debt and Other Instruments	-	34,268,495	-	34,268,495
Financial Assets at FVOCI	6,158	-	-	6,158
Total Financial Assets	6,158	172, 174,634	93,013	172,273,805
Financial Liabilities				
Due to Banks	-	2,863,376	-	2,863,376
Repurchase Agreements	-	898,651		898,651
Derivative Financial Instruments	-	-	79,005	79,005
Due to Depositors	-	141,079,707	-	141,079,707
Due to Debt Securities Holders	-	10,637,140	-	10,637,140
Subordinated Debentures	-	872,839	-	872,839
Other Liabilities	-	935,470	-	935,470
Total Financial Liabilities	-	157,287,183	79,005	157,366,188

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year (Note 47).

36 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank measures financial instruments such as financial assets at FVPL, financial assets at FVOCI, financial derivatives and non-financial assets such as certain classes of property, plant and equipment at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

  or

- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account of a market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

36.1 Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

(a) Derivatives

Derivative products valued with market-observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward exchange spot and forward premiums/discounts.

(b) Financial Assets at Fair Value through Other Comprehensive Income

Financial Assets at Fair Value through Other Comprehensive Income are valued using valuation techniques or pricing models primarily consist of unquoted equities.

(c) Financial Assets at Fair Value through Profit or Loss

Quoted Equities and Sri Lanka Government Securities included in Financial Assets at Fair Value through Profit or Loss. Sri Lanka Government Securities are valued using yield curves published by the Central Bank of Sri Lanka. The Bank uses quoted market prices in the active market as at the reporting date, for Quoted Equities.

36.2 Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting date.

External valuers are involved for valuation of significant assets such as properties and significant liabilities such as defined benefit obligations. The selection criteria includes market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date the Management analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Bank's accounting policies. For this analysis, the Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Management in conjunction with the Bank's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Notes to the Financial Statements

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 2021	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
Financial Assets				
Derivative Financial Instruments	-	4,592	-	4,592
Financial Assets at FVOCI	-	3,752	-	3,752
	-	8,344	-	8,344
Non-Financial Assets				
Land - Revalued (Note 21.5)	-	-	1,420,100	1,420,100
Building - Revalued (Note 21.3)	-	-	464,623	464,623
	-	-	1,884,723	1,884,723
Financial Liabilities				
Derivative Financial Instruments	-	33	-	33
	-	33	-	33

As at 31st December 2020	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
Financial Assets				
Derivative Financial Instruments	-	93,013	-	93,013
Financial Assets at FVOCI	-	6,158	-	6,158
	-	99,171	-	99,171
Non-Financial Assets				
Land - Revalued (Note 21.5)	-	-	1,420,100	1,420,100
Building - Revalued (Note 21.3)	-	-	483,155	483,155
	-	-	1,903,255	1,903,255
Financial Liabilities				
Derivative Financial Instruments	-	79,005	-	79,005
	-	79,005	-	79,005

b) The following table shows the fair value gains/(losses) recognised in Profit or Loss during the year relating to financial assets and liabilities at FVPL held at the year end.

	2021 Rs 000	2020 Rs 000
Financial Assets/Liabilities		
Derivative Financial Instruments	(9,448)	13,671
	(9,448)	13,671

36.3 Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity, it is assumed that the carrying value approximates their fair values. This assumption is applied for Cash and Cash Equivalents, Balances with Central Bank of Sri Lanka, and Reverse Repurchased Agreements. This assumption is also applied to Call Money Borrowings, Balances with Foreign Banks, Repurchase Agreements, Demand Deposits, Margin Deposits, Savings Accounts without a specific maturity, floating rate instruments and fixed rate instruments having maturities within 12 months.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities (other than assets and liabilities with maturities within 12 months) carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

Variable Rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence, the carrying value represents the fair values of the variable rate instruments.

Set out below is a comparison, by class, of the carrying value and fair value of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair value of non-financial assets and non-financial liabilities.

As at 31st December	2021		2020	
	Carrying Value Rs 000	Fair Value Rs 000	Carrying Value Rs 000	Fair Value Rs 000
Financial Assets				
Cash and Cash Equivalents	2,218,092	2,218,092	2,914,163	2,914,163
Balances with Central Bank of Sri Lanka	5,038,345	5,038,345	10,304,348	10,304,348
Reverse Repurchase Agreements	-	-	1,530,441	1,530,441
Loans and Advances - at Amortised Cost	142,369,157	143,769,199	123,157,187	126,451,374
Debt and Other Instruments - at Amortised Cost	34,110,583	30,782,255	34,268,495	32,468,695
Total Financial Assets	183,736,177	181,807,891	172,174,634	173,669,021
Financial Liabilities				
Due to Banks	3,914,395	3,914,395	2,863,376	2,863,376
Repurchase Agreements	254,154	254,154	898,651	898,651
Due to Depositors - at Amortised Cost	146,433,816	147,364,409	141,079,707	144,280,741
Due to Debt Security Holders - at Amortised Cost	12,978,490	13,003,064	10,637,140	10,749,465
Subordinated Debentures	872,839	863,083	872,839	930,507
Other Liabilities	1,437,148	1,669,718	935,470	1,248,165
Total Financial Liabilities	165,890,842	167,068,823	157,287,183	160,970,905

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year (Note 47).

37 RISK MANAGEMENT

37.1 Introduction

Risk is inherent in Bank's activities, but is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls as per the risk appetite of the Bank. The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his/her responsibilities. The Bank's exposure to risk could be broadly categorised into credit risk, market risk, liquidity risk and operational risk. In addition, the impact of other risks such as strategic risk, reputational risk, compliance risk and legal risk are also monitored to avoid any additional impact on the Bank. The impact on risk could be segregated as external or internal according to the nature of the business. External risks may be due to changes in political, regulatory and other changes in the industry could impact the strategic processes of the Bank.

Risk Management Objectives, Policies and Processes

The foremost objective of the risk management is to assess the uncertainty of the future in order to make the best possible decision at present ensuring a return with the minimum impact on the financial position and profitability. The Bank's all risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Further, all risk management policies are updated regularly to reflect changes in market conditions, products and services offered by the Bank and requirements of the regulators.

Measurement of financial instruments is done with proper assessment of expectation in future cash flows. The most imperative methods of ascertaining the risk of such instruments is done by way of assessing the future settlement plan. Early identification of any issues had been the key factor to arrest and addresses the challenges of the environment and the expectation of the Bank. Having identified the categories of the measurements, the mitigating controls were introduced for better portfolio management. Separate management methods were introduced as per collateral, risk rating, and cash flow attached to each instruments. Stringent measures were introduced for items which needed close monitoring.

Risk Governance and Risk Management Strategies & Systems

The Bank's overall responsibility for risk management falls on the Board of Directors. Accordingly, the Bank has established a robust and pervasive risk culture and clear policies that defines the responsibilities of corporate and senior management personnel, subject to the oversight of the Board. There are committees at both the Board and the Management levels to ensure that all risks are appropriately managed and risk limits are established based on the appetite of the Bank.

Board Audit Committee

The Board Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls & risk management systems, internal audit process, and the Bank's process for monitoring compliance with legal and regulatory requirements, appointment of external auditors, determination of their fees, ensuring their objectivity and independence and maintaining high standards of good Corporate Governance practices to conform to highest ethical standards. The Board Audit Committee is assisted in these functions by the Internal Audit Department. Internal Audit Department undertakes both adhoc and regular reviews of risk management controls and procedures in accordance with the Audit Plan, the results of which are reported to the Board Audit Committee.

Board Credit Committee

The Board of Directors has delegated the responsibility for the oversight of credit management functions of the Bank to the Board Credit Committee. The Board Credit Committee discharges its main responsibilities to operate a sound credit granting process, maintain an appropriate credit administration, maintain adequate controls over credit risk, identification and administration of problem advances, proper evaluation of new business opportunities, cyclical aspects of internal and external economy and review of facilities sanctioned by the Committee and issue of further instructions, if necessary.

Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee mainly looks into the overall risk management aspects of the Bank. The Committee adopts risk strategies, frameworks, and policies and is also responsible for implementation of these strategies and plans. The Committee meets on quarterly basis and discusses the predetermined risk goals implemented as per the Bank wide risk management policy adopted by the Board and review the performances of the management committees. Risk dashboard, risk aggregation reports along with stress testing methodology are used to address the overall risk level of the Bank.

Board Related Party Transaction Review Committee

The Bank constituted Board Related party Transaction Review committee in order to assist the Board to review all related party transactions performed by the Bank. The committee monitors Bank's compliance with the Colombo Stock Exchange listing rules which ensure interest of the shareholders when entering into the related party transactions. The Committee independently reviews all related party transactions and provides/observations to the Board of Directors if deem necessary.

Board Strategic Planning Committee

The Board Strategic Planning Committee is formed to ensure that sufficient attention is devoted to the strategic planning process at the Board level. The Committee discharges it's main responsibilities by approving the periodic strategic plan & significant amendments to the existing strategic plan and recommending to the Board, ensuring that the annual budget is prepared to accomplish the goals and objectives of the strategic plan and recommending the same to the Board, reviewing the actual performance against the strategic plan as well as the annual budget, reviewing the appropriateness of current vision, mission and strategic positioning of the Bank, approving all strategic investment decisions such as mergers and acquisitions and recommending the same to the Board, reviewing the adequacy and composition of the Bank's capital structure in the context of the growth targets.

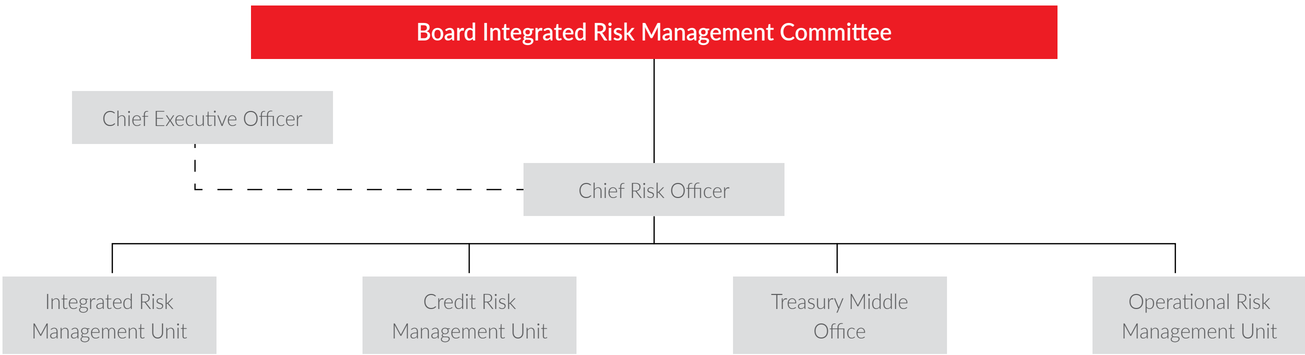
Board Recoveries Committee

The Board Recoveries Committee is formed to inculcate top to bottom approach in minimising Non-Performing Advances (NPAs) and maximising the profitability of the Bank since recoveries indicate a paramount important for the overall performance of the Bank. The Committee was formed for the purpose of ensuring sound recovery function while minimising potential non-performing advances to achieve sustainable growth and stability over the period of time. The main duties of the committee include establishing appropriate recovery strategies for NPAs and delinquent credit of the Bank, review performances against recovery targets that are agreed with respective Area Mangers and department/product heads of the Bank and take necessary actions to upgrade the recovery process of the Bank.

Notes to the Financial Statements

Risk Management Function

Risk Management function which is independent of the business units, performs the role of implementing risk management policies and procedures. Risk Management Unit headed by the Chief Risk Officer is responsible and accountable for controlling of risks, compliance of risk policies and procedures of the Bank. The structure of the risk management unit is as follows;



Each unit monitors the impact on separate risks as specified. These units function independent of business units and submits its observations to the Chief Risk Officer. Reports are generated daily, weekly, monthly and quarterly basis as per the requirements and breaches, if any, are notified for relevant action. Exceptions are also reported to the Board Integrated Risk Management Committee with relevant actions to be taken to address them.

Risk Measurement and Reporting Systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The Compliance function is also an independent function which performs the role of safeguarding the Bank against regulatory and reputational risks. It does this through appropriate polices and procedures for compliance with all applicable laws and regulations and embedding them into the internal control system. The policies set out the procedures for safeguarding the Bank from being sanctioned or fined for regulatory non-compliances. The Bank's Compliance Department also conducts training to familiarise staff with their compliance obligations.

The Bank's risks are recorded according to the breaches that have taken place, expected/predicted losses and unexpected cases which may arise in future. The estimated figures of cases are weekly monitored for prevention and mitigations. These events are mainly taken into account according to the internal risk management process established by the Bank. Monitoring of risks is done on predetermined limits as per policies. Management Information System reports are generated to the Corporate and Senior Management based on these risks indicators. Certain industries are specially highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted based on their daily, weekly and monthly monitoring to the Board/Management committees to measure the risk exposure across all types of risks and activities. This contains the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports will indicate aggregate credit exposure, credit metric forecasts, hold limit exceptions, as well as liquidity ratios. Further, elaborations will be done on industry, concentration, customer and geographic risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored weekly for adherence. Delegated Authority limits have been imposed to each business units to control exposure to risks. Those outwit such limits are referred to Credit Risk Management Committee/Board Credit Committee for approval.

Responding to COVID-19 Risks

At times, changes in the Bank's external and internal operating environments may have an impact on the nature of one or more of our material risk types. COVID-19 pandemic is a classic example, which rapidly introduced an array of new and elevated risks to the safety of our people, the resilience of the Bank's operations, the strength of our Statement of Financial Position and the financial security of our customers and the community. A number of actions were taken to address these risks, such as:

- Healthy and safely measures to support and protect our staff, customers and community.
- Relief measures to support our customers.
- Infrastructure changes to ensure stability of key services such as launching of mobile ATM and banking facilities.
- Continued enhancement of the Bank's cyber defences.
- Increased oversight of critical suppliers.
- Increased forward looking loan loss provisions.
- On-going monitoring of the Bank's lending portfolios.

The Board of Directors and the Management continue to actively monitor the situation and adapt the Bank's response as required.

37.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the Credit Risk Department of the Bank's independent risk controlling unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revisions. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the credit risks to which it is exposed and take corrective actions.

Management of Credit Risk

The primary objective of credit risk management is to enable the Bank to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved credit appetite. The Bank has a well defined credit policy approved by the Board of Directors which spells out the credit culture of the Bank, specifying target markets for lending and areas to avoid. The policy is implemented through the credit process, which is set out with clear guidelines and procedures. As a further step towards improving and maintaining uniformity of credit submissions, the Bank has established credit clusters (under area offices) with well trained and experienced staff to evaluate and carry out periodic review of credit facilities.

The Bank's credit risk management process broadly encompasses the following;

a) Loan origination and risk appraisal comprises initial screening and credit appraisal focused on borrowers' ability to meet their commitments in a timely manner. The internal risk rating is an important part of the risk assessment of the customers and incorporated in the credit decision process. This numerical rating denotes the borrowers' strength relating to repayment ability, financial condition, industry/business outlook and management quality. A separate alphabetical rating is assigned to customers as the security indicator based on Bank's approved policy on security. The Bank minimises risk by granting credit facilities for high rated customers.

b) Loan approval and sanction of credit facilities - Clear guidelines and policies have been established for loan approvals/ renewals within delegated credit approval authorities.

c) Credit administration and disbursement is performed by Credit Administration Unit, which is an independent unit to ensure clear segregation of duties from business units and ensures origination and disbursement of credit are made only after stipulated conditions have been met and relevant security documents are obtained.

d) Post disbursement credit monitoring unit monitors all overdue credit facilities reported to 'under performing category' to facilitate timely collections.

e) Credit Measurement and Monitoring - Credit Risk Management Unit measures and tracks the early warning signals pertaining to deterioration of financial health of the borrowers and customers who need special attention/monitoring is identified and their financial behaviours is discussed at the Credit Risk Management Committee and the Board Credit Committee levels.

Notes to the Financial Statements

f) Non-performing advances are managed by the Legal and Recoveries Departments. These units are responsible for all aspects of the non-performing credit, restructuring of the credit, monitoring the value of the applicable collateral & liquidation, scrutiny of legal documents liaising with the customer until all legal recovery matters are finalised, effective integration with Credit Risk and Credit Administration Units for follow up action.

The Bank's credit risk management process is articulated in credit policies, which are approved by the Board of Directors. Credit policies lay down the conditions and guidelines for the granting, maintenance, monitoring and management of credit, at both individual transaction and portfolio levels. These policies are documented, well defined, consistent with prudent practices & regulatory requirements and adequate for the nature and complexity of the Bank's activities. Limits have been prescribed for the Bank's exposure to any single borrower, group of specific borrowers or specific industries/sectors in order to avoid concentration of credit risk.

A well structured loan review mechanism is in place and a comprehensive review is carried out at least annually for individually significant loans and identification of customers that require special attention are identified and more frequent updates are carried out for 'Watch List' exposures.

The Bank uses collateral for credit risk mitigation. The requirements for collateral is set forth in the credit policies and procedures of the Bank. The collaterals are evaluated independently by professional valuers approved by the Head Office Credit Committee and the Board Credit Committee.

37.2.1 Credit Related Commitments Risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and financial guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

37.2.2 Impairment Assessment

For accounting purposes, the Bank uses an Expected Credit Loss (ECL) model for the recognition of Impaired losses on financial assets. The Bank performs an assessment at the end of each reporting date, of whether the financial instruments' credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instruments.

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the summary of significant accounting policies.

- The Bank's definition and assessment of 'Default' and 'Cure' (Note 37.2.2.1).
- An explanation of the Bank's Probability of Default estimating process (Note 37.2.2.2).
- How the Bank defines, calculates and monitors the Probability of Default, Exposure at Default and Loss Given Default (Notes 37.2.2.2, 37.2.2.3 and 37.2.2.4 respectively).
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 37.2.2.5).
- The Bank's policy on segmenting financial assets where ECL is assessed on a collective basis (Note: 37.2.2.6).
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note: 2.9.6.2).

37.2.2.1 Definition of 'Default' and 'Cure'

The Bank considers a financial instrument as 'Defaulted' and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days-past-due on its contractual payments, in accordance with SLFRS 9 and relevant regulatory guidelines and directions. In addition to above the Bank considers all 'Non-Performing Credit Facilities' and 'Rescheduled Credit Facilities' as defined in the Banking Act Direction No. 03 of 2008 on 'Classification of Loans and Advances, Income Recognition and Provisioning' as 'Stage 3 Credit Facilities'. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include;

- Internal rating of the borrower indicating default or near-default.

- The borrower requesting emergency funding from the Bank.
- The borrower having past due liabilities to public creditors or employees.
- The borrower is deceased.
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral.
- A material decrease in the borrower's turnover or the loss of a major customer.
- A covenant breach not waived by the Bank.
- The debtor filing for bankruptcy application/protection.
- Debtor's listed debt or equity suspended/delisted at the primary stock exchange

It is the Bank's policy to consider a financial instrument as 'cured' and therefore reclassified out of Stage 3 when none of the default criteria have been present as at the reporting date. The decision whether to classify an asset as 'Stage 2' or 'Stage 1' once cured depends on the updated credit grade at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than requirement for forbearance which is explained in Note 2.9.10.

37.2.2.2 Probability of Default (PD)

The Bank estimates the Probability of Defaults (PDs) based on the basis of historical information. The Bank's PDs are calculated on the basis of on 'Days-Past-Due' (DPD) using 'Risk Migration Matrix Method'.

Details of the Bank's PD's are given below;

As at 31st December 2021	Stage 1 %	Stage 2 %	Stage 3 %
Loans and Advances			
Term Loans	0.31 - 20.88	10.62 - 86.08	100.00
Overdrafts	2.48 - 8.29	7.59 - 17.33	100.00
Trade Finance	0.69 - 3.80	6.91 - 12.08	100.00
Lease Rentals Receivable	2.58 - 2.86	3.14 - 11.45	100.00
Others	0.13 - 26.27	0.24 - 37.26	100.00
Other Financial Assets			
Government of Sri Lanka Securities	30.00	-	-
Other Financial Assets	0.0001 - 30.00	-	-

As at 31st December 2020	Stage 1 %	Stage 2 %	Stage 3 %
Loans and Advances			
Term Loans	0.32 - 21.36	11.13 - 85.68	100.00
Overdrafts	3.00 - 7.79	8.80 - 14.86	100.00
Trade Finance	0.70 - 3.66	7.33 - 14.03	100.00
Lease Rentals Receivable	2.47 - 3.05	3.62 - 8.98	100.00
Others	0.15 - 30.27	0.23 - 41.01	100.00
Other Financial Assets			
Government of Sri Lanka Securities	10.00	-	-
Other Financial Assets	0.0001 -10.00	-	-

PDs are then adjusted for ECL calculations to incorporate forward looking information and SLFRS 9 Stage Classification of the exposures. This is repeated for each economic scenario as appropriate.

37.2.2.3 Exposure at Default (EAD)

The exposure at default represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 2.9.6.4.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months from the reporting date for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default within the 12 months from the reporting date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the EAD is considered for events over the lifetime of the instruments.

The Bank determines EADs by modeling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of the Bank's models.

37.2.2.4 Loss Given Default (LGD)

The Loss Given Default is an estimate of the loss arising in the case where default occurs at a given time. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. The Bank computes LGDs for loans and advances for each credit portfolio having homogeneous risk characteristics.

LGD for debt securities issued by the Government of Sri Lanka in local currency is considered as 0%, LGD for foreign currency denominated securities issued by the Government of Sri Lanka (Sri Lanka Development Bonds and Sri Lanka Sovereign Bonds) is considered to be 20% and for all other non-loan financial instruments, LGD is considered as 45% in accordance with the guidelines issued by the Central Bank of Sri Lanka.

The Bank segments its lending portfolio into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics as well as borrower characteristics.

37.2.2.5 Significant Increase in Credit Risk (SICR)

The Bank continuously monitors all financial assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk in accordance with the qualitative criteria assessment on significant increase in credit risk for an asset. In certain cases, the Bank may also consider that events explained in below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days-past-due, the credit risk is deemed to have increased significantly since initial recognition.

Qualitative criteria used for SICR assessment is given below;

- Modification of terms resulting in concessions due to credit deterioration deficiency of the borrower.
- The customer is deceased or insolvent
- When the Bank is unable to find or contact the customer
- A reasonable and supportable forecasts of future economic conditions that adversely affects the performance of the customer
- A significant change in geographical locations or a customer or a natural catastrophes that adversely impacts the customer performance
- A significant fall in the value of the underlying collaterals, when recovery action is in progress
- An illegal disposal of mortgaged assets
- A major fine or a penalty imposed on the customer
- Significant changes in an actual or expected reductions in borrowers economic incentives to make scheduled contractual payments
- Undue delay in submission of audited financial statements
- Modified external audit opinion on financial statements

- Continuous significant cash flows problems
- A significant increase in financial gearing
- More than 50% decline in borrowers turnover or profit before tax over previous year
- Erosion of borrowers net-worth by 25% over the previous year
- A significant non-compliance with regulatory requirements
- A change in laws and regulations that significantly affects customer's performance
- A material litigation against the customer that may significantly affects the customer performance or any other factor that affects the going concern of the company.
- At least 1 year delay in commencement of commercial operations/major projects of the customer
- Downgrade of Bank's internal risk rating during past 12 months
- Downgrade of external credit rating during past 12 months
- Availability of any other factor that suggest the borrower will not be able to service the loan as agreed or any other factor that signifies that credit risk of the borrower has been increased significantly.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 37.2.2.6), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

For facilities subject to the COVID-19 repayment deferral arrangements, an assessment of SICR has been determined based on various measures of the customer's current financial position and earnings capacity from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Customers in higher risk categories, and those who have requested for prolong deferral extensions are classified as having a SICR. Base on the results of the risk assessment, required management overlays have been made.

37.2.2.6 Movements between Stages

Financial assets (other than POCI) are transferred between the different categories depending on their degree of change in credit risk since initial recognition. Financial instruments are transferred out of Stage 2, if their credit risk is no longer considered to be 'significantly increased' since initial recognition based on the assessment described above. Financial instruments are transferred out of Stage 3 when they no longer exhibit any evidence of credit impairment as described above.

Further restructured facilities up to two times are considered as 'cured' upon a satisfactory performing period of a minimum 90 days subsequent to the first capital and/or interest instalment post-restructure is in place after an independent review by the credit risk management unit. Credit facilities restructured for more than two times and re-scheduled credit facilities are considered as 'cured' upon satisfactory performing period of a minimum 180 days subsequent to the first capital and/or interest instalment post-restructure/post -reschedulement after the independent review of credit risk management team.

37.2.2.7 Grouping Financial Assets Measured on a Collective Basis

As explained in Note 2.9.6, the Bank calculates ECL's either on a collective or an individual basis.

Allowances are assessed collectively for losses on Loans and Advances that are not individually significant and for individually significant Loans and Advances that have been assessed individually and found not to be impaired. The Bank generally bases its analyses on historical experience. However, when there are significant market developments, the Bank would include macroeconomic factors within its assessments. These factors include GDP growth rate, unemployment rate, inflation rate, exchange rates, changes in laws & regulations and other data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio.

The Bank groups exposures into homogeneous portfolios, based on the internal and external characteristics of the loans and advances, as described below;

- Product Type
- Business Segment Type
- Industry Type
- Collateral Type
- Exposure Value

Notes to the Financial Statements

37.2.3 Analysis of ECL Model under Multiple Economic Scenarios

Probability Weightings

Probability weighting of each scenario is determined by the Management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weighting in the current year is the continuing impact of COVID-19.

In addition to the base case economic forecast which reflects the negative consequences of COVID-19, greater weighting has been applied to the downside scenario given the Bank's assessment of downside risks.

The table below indicates the weightings applied by the Bank.

	2021	2020
Base Case	20%	25%
Upside	20%	25%
Downside	60%	50%

Sensitivity Analysis

The following table outlines the impact of multiple economic scenarios on the allowance for impairment of Financial Assets;

As at 31st December 2021	Loans & Advances Rs 000
Scenario A - Actual	
Base case - 20%, Upside - 20%, Downside - 60%	4,824,021
Scenario B	
Base case - 15%, Upside - 15%, Downside - 70%	4,891,303
Change in Impairment Allowance - Increase/(Decrease) - (B - A)	67,282
Scenario A - Actual	
Base case - 20%, Upside - 20%, Downside - 60%	4,824,021
Scenario C	
Base case - 25%, Upside - 25%, Downside - 50%	4,746,728
Change in Impairment Allowance - Increase/(Decrease) - (C - A)	(77,293)

As at 31st December 2020	Loans & Advances Rs 000
Scenario A - Actual	
Base case - 25%, Upside - 25%, Downside - 50%	4,619,635
Scenario B	
Base case - 20%, Upside - 20%, Downside - 60%	4,660,924
Change in Impairment Allowance - Increase/(Decrease) - (B - A)	41,289
Scenario A - Actual	
Base case - 25%, Upside - 25%, Downside - 50%	4,619,635
Scenario C	
Base case - 30%, Upside - 30%, Downside - 40%	4,576,966
Change in Impairment Allowance - Increase/(Decrease) - (C - A)	(42,669)

The application of multiple economic scenarios does not have any material impact on impairment allowances on other classes of financial assets, financial guarantees or documentary credit.

37.2.4 Analysis of Maximum Exposure to Credit Risk and Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The Bank obtains cash, gold, securities, properties, guarantees, other movable and immovable properties as collateral against lending. An approved list of acceptable securities and the applicable percentage of cash securities are defined as per the Credit Policy. These Collateral are evaluated independently by professional valuers. The Management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose off repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

There are no significant changes in the quality of the collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the Bank during the year 2021. (2020 - Nil)

Notes to the Financial Statements

37.2.5 Maximum Exposure to Credit risk

31st December 2021	Maximum Exposure to Credit Risk	Government Securities	Cash Deposits	Immovable Property	Movable Property	Government Pension and Salary Assignments	Gold	Other	Exposure Covered from Collateral	Net Exposure
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets										
Cash and Cash Equivalents	2,225,376	-	-	-	-	-	-	-	-	2,225,376
Balances with Central Bank of Sri Lanka	5,038,345	-	-	-	-	-	-	-	-	5,038,345
Derivative Financial Instruments	4,592	-	-	-	-	-	-	-	-	4,592
Loans and Advances - at Amortised Cost (Note 18)	150,684,024	-	12,705,234	19,078,073	10,824,468	54,318,834	13,163,530	23,066,800	133,156,939	17,527,085
Debt and Other Instruments - at Amortised Cost (Note 19.1)	35,198,761									35,198,761
Financial Assets - at FVOCI	3,752	-	-	-	-	-	-	-	-	3,752
	193,154,850	-	12,705,234	19,078,073	10,824,468	54,318,834	13,163,530	23,066,800	133,156,939	59,997,911
Other Credit Exposures										
Documentary Credit (Note 41.1)	1,778,389	-	6,235	-	-	-	-	-	6,235	1,772,154
Financial Guarantees (Note 41.1)	3,807,053	-	487,019	-	-	-	-	-	487,019	3,320,034
Undrawn Credit Commitments* (Note 41.1)	15,729,762	-	-	-	-	-	-	-	-	15,729,762
	21,315,204	493,254	-	-	-	-	-	-	493,254	20,821,950
	214,470,054	-	13,198,488	19,078,073	10,824,468	54,318,834	13,163,530	23,066,800	133,650,193	80,819,861

31st December 2020	Maximum Exposure to Credit Risk	Government Securities	Cash Deposits	Immovable Property	Movable Property	Government Pension and Salary Assignments	Gold	Other	Exposure Covered from Collateral	Net Exposure
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets										
Cash and Cash Equivalents	2,917,288	-	-	-	-	-	-	-	-	2,917,288
Balances with Central Bank of Sri Lanka	10,304,348	-	-	-	-	-	-	-	-	10,304,348
Reverse Repurchase Agreements	1,530,441	1,530,441	-	-	-	-	-	-	1,530,441	-
Derivative Financial Instruments	93,013	-	-	-	-	-	-	-	-	93,013
Loans and Advances - at Amortised Cost (Note 18)	130,751,778	-	13,371,526	22,102,662	11,177,227	47,869,749	5,392,247	18,500,808	118,414,219	12,337,559
Debt and Other Instruments - at Amortised Cost (Note 19.1)	34,637,174	-	-	-	-	-	-	-	-	34,637,174
Financial Assets - at FVOCI	6,158	-	-	-	-	-	-	-	-	6,158
	180,240,200	1,530,441	13,371,526	22,102,662	11,177,227	47,869,749	5,392,247	18,500,808	119,944,660	60,295,540
Other Credit Exposures										
Documentary Credit (Note 41.1)	1,793,099	-	-	-	-	-	-	-	-	1,793,099
Financial Guarantees (Note 41.1)	3,879,977	-	66,528	-	-	-	-	-	66,528	3,813,449
Undrawn Credit Commitments* (Note 41.1)	14,979,200	-	379,256	-	-	-	-	-	379,256	14,599,944
	20,652,276	-	445,784	-	-	-	-	-	445,784	20,206,492
	200,892,476	1,530,441	13,817,040	22,102,662	11,177,227	47,869,749	5,392,247	18,500,808	120,390,444	80,502,032

*Credit risk mitigants relating to undrawn credit commitments are netted-off against utilised portion of respective credit facilities.

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year (Note 47).

Notes to the Financial Statements

The Bank has not recognised an ECL allowance for the following financial assets because of the collateral.

	2021 Rs 000	2020 Rs 000
Reverse Repurchase Agreements	-	1,530,441
Fully Cash Backed Loans & Advances	6,971,367	7,336,962
	6,971,367	8,867,403

37.2.5.1 Maximum Exposure to Credit-Impaired (Stage 3) Loans and Advances

31st December 2021	Maximum Exposure to Credit Risk	Cash Deposits	Immovable Property	Movable Property	Government Pension and Salary Assignments	Gold	Other	Exposure Covered from Collateral	Net Exposure
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Credit-Impaired (Stage 3) Loans and Advances (Note 18)	10,607,615	8,016	2,251,596	444,830	247,985	24,221	5,604,163	8,580,811	2,026,804
	10,607,615	8,016	2,251,596	444,830	247,985	24,221	5,604,163	8,580,811	2,026,804

31st December 2020	Maximum Exposure to Credit Risk	Cash Deposits	Immovable Property	Movable Property	Government Pension and Salary Assignments	Gold	Other	Exposure Covered from Collateral	Net Exposure
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Credit-Impaired (Stage 3) Loans and Advances (Note 18)	11,095,334	80,208	4,113,405	410,932	239,694	25,366	4,031,268	8,900,873	2,194,461
	11,095,334	80,208	4,113,405	410,932	239,694	25,366	4,031,268	8,900,873	2,194,461

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

37.2.6 Modified Financial Assets and Forborne Loans

If the terms of a financial asset is modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial.

This assessment considers both changes to cash flows arising from the modified terms and the changes in risk profile of the overall instrument. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine significant increase in credit risk. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine significant increase in credit risk for the new asset.

37.2.6.1 Modifications Relating to COVID-19

Since March 2020, the Bank offered various forms of assistance to its customers to counter the impact of COVID-19 on their ability to meet their loan obligations. The assistance provided included arrangements such as temporary deferral of capital and/or interest repayments and maturity dates with or without concession on interest charged.

The repayment deferral arrangements were considered to be continuations of the existing loans and were therefore, accounted for as non-substantial loan modifications. No significant modification losses were recognised into the net interest income relation to payment deferrals on credit facilities during the year 2021. (2020 - Rs. 192,394,045/-)

Loans and advances with a gross carrying value amounting to Rs. 1,844,411,889/- were subject to COVID-19 related repayment deferral arrangements and they were classified under either Stage 2 or Stage 3 as of 31st December 2021 and were subject to lifetime expected credit losses as at the date. (Loans subject to COVID-19 related repayment deferral arrangements with a gross carrying value of Rs. 611,915,706/- classified under either Stage 2 or Stage 3 as of 31st December 2020).

37.2.6.2 Forborne Loans

From a risk management point of view, once an asset is forborne, the Bank's Recoveries Department and Credit Risk Management Unit continues to monitor the exposure until it is completely derecognised.

The table below shows the details of the Forborne Loans with the related modification losses suffered by the Bank during the year.

	2021 Rs 000	2020 Rs 000
Amortised Cost of Forborne Loans and Advances (Modified during the Year)	71,973	268,804
Net Modification Loss	44	343

37.2.7 Management Overlays

Management overlays reflect the significant uncertainty emerged as a consequence of the COVID-19 outbreak. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific borrower groups, sectors and segments.

Taking into consideration of the extension of the moratoriums and the extensive impact of the pandemic to the economy, the Bank further refined its impairment models to suit with the current market and economic conditions. Therefore, the provisions recognised as an overlay on account of moratorium and non-moratorium loans were further increased during the year.

The Bank also increased its model based collective impairment provisions for loans and advances and other financial assets during the year by reviewing the macro-economic variables used for the computation of Economic Factor Adjustment (EFA) in line with the latest macro-economic conditions. Meanwhile, the Bank increased the weightage assigned for worst case economic scenario to reflect these uncertainties in the calculation of ECLs during the year 2021. The Bank continued to examine the individually significant customers including debt moratorium enjoying customers and ensured adequate provisions were made in the Financial Statements, as required. In addition, the decision to reclassify customers deemed to be identified as operating in risk elevated industries/segments and move into lower stages (Stage 2 and Stage 3), also continued throughout the year 2021.

The management overlay adjustments are approximately 17% (2020 - 7%) of the total ECL provision as at 31st December 2021.

Additional information and sensitivity analysis in respect of the inputs to the ECL model under probability weightings and multiple economic scenarios are provided in Note 37.2.3.

Notes to the Financial Statements

37.2.8 Credit Quality by Class of Financial Assets

The Bank manages the credit quality of financial assets using Days-Past-Due (DPD). 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 2021	Neither Past Due Nor Impaired	Past Due But Not Impaired							Individually Impaired	Total
		1-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	361-540 Days	Over 540 Days		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash and Cash Equivalents	2,225,376	-	-	-	-	-	-	-	-	2,225,376
Balances with Central Bank of Sri Lanka	5,038,345	-	-	-	-	-	-	-	-	5,038,345
Derivative Financial Instruments	4,592	-	-	-	-	-	-	-	-	4,592
Loans and Advances - at Amortised Cost	108,381,594	10,946,586	20,466,640	642,705	443,605	1,317,123	743,997	3,326,794	4,414,980	150,684,024
Debt and Other Instruments - at Amortised Cost	35,198,761	-	-	-	-	-	-	-	-	35,198,761
Financial Assets at FVOCI	3,752	-	-	-	-	-	-	-	-	3,752
Total	150,852,420	10,946,586	20,466,640	642,705	443,605	1,317,123	743,997	3,326,794	4,414,980	193,154,850

As at 31st December 2020	Neither Past Due Nor Impaired	Past Due But Not Impaired							Individually Impaired	Total
		1-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	361-540 Days	Over 540 Days		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash and Cash Equivalents	2,917,288	-	-	-	-	-	-	-	-	2,917,288
Balances with Central Bank of Sri Lanka	10,304,348	-	-	-	-	-	-	-	-	10,304,348
Derivative Financial Instruments	93,013	-	-	-	-	-	-	-	-	93,013
Reverse Repurchase Agreements	1,530,441	-	-	-	-	-	-	-	-	1,530,441
Loans and Advances - at Amortised Cost	97,408,667	12,142,381	6,518,537	2,420,589	3,032,500	1,041,105	860,173	3,276,608	4,051,218	130,751,778
Debt and Other Instruments - at Amortised Cost	34,637,174	-	-	-	-	-	-	-	-	34,637,174
Financial Assets at FVOCI	6,158	-	-	-	-	-	-	-	-	6,158
Total	146,897,089	12,142,381	6,518,537	2,420,589	3,032,500	1,041,105	860,173	3,276,608	4,051,218	180,240,200

The Bank considers any amounts uncollected for one day or more beyond their contractual due date as 'Past Due'.

Individually Impaired Loans and Advances/ Financial Assets

All individually significant loans and advances/financial assets which the Bank determines that there is objective evidence of impairment loss and therefore, may not be able or unable to collect all principal and interest due according to the contractual terms are classified as 'Individually Impaired Loans and Advances/Financial Assets'.

Past Due But Not Impaired Loans and Advances/Financial Assets

Past Due But Not Impaired Loans and Advances/Financial Assets are those with contractual interest or principal payments are 'past due', but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed, level of security/collateral available and significance of the financial asset.

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year (Note 47).

37.2.8.1 Credit Risk Exposure for Each Internal Borrower Risk Rating

The Bank had developed Borrower Risk Rating Models internally for the clients in Corporate and SME segments and also part of the Retail segment. Retails clients who enjoys schematised retail facilities are not rated using this model. These rating models were introduced in January 2019 and existing clients with revolving facilities in the stated segments also been rated using this model at the time of carrying out annual reviews. Clients who enjoy facilities against cash deposits only have been tagged as " Fully Cash Backed (FCB)". When a facility of a client classified as Non Performing Facility, the borrower will be considered under "Default" category irrespective of the exiting BRR scale of the client.

The capital outstanding of clients who have been rated using the Bank's BRR models as of 31.12.2021, is as follows.

Internal Borrower Rating Scale	Risk Profile	Amount Rs 000
AAA	Minimum risk	68,851
AA	Marginal risk	6,827,776
A	Modest risk	13,980,573
BBB	Average risk	11,612,189
BB	Marginally acceptable risk	3,026,694
B	High Risk	833,323
C	Caution	465,643
D	Default	3,382,272
FCB	Fully Cash Backed	9,046,308
Grand Total		49,243,629

37.2.9 Analysis of Risk Concentration

37.2.9.1 Concentration by Client/Counterparty

The Bank's concentrations of risk are managed by client/counterparty, by industry sector and by geographical region. The maximum credit exposure to any customer or a group counterparty as of 31st December 2021 was Rs. 3,342,200,000/- (2020 : Rs. 2,301,200,000/-), before taking account of collateral.

Notes to the Financial Statements

37.2.9.2 Concentration by Industry Sector

As at 31st December 2021	Government	Agriculture, Forestry and Fishing	Manufacturing	Tourism	Transportation and Storage	Construction & Housing	Wholesale and Retail Sale
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash and Cash Equivalents	1,720,424	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	5,038,345	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-
Loans and Advances - at Amortised Cost	-	24,266,583	17,264,975	3,162,179	761,837	41,167,808	15,139,109
Debt and Other Instruments - at Amortised Cost	35,198,761	-	-	-	-	-	-
Financial Assets at FVOCI	-	-	-	-	-	-	-
	41,957,530	24,266,583	17,264,975	3,162,179	761,837	41,167,808	15,139,109

As at 31st December 2020	Government	Agriculture, Forestry and Fishing	Manufacturing	Tourism	Transportation and Storage	Construction & Housing	Wholesale and Retail Sale
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash and Cash Equivalents	2,663,080	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	10,304,348	-	-	-	-	-	-
Repurchase Agreements	-	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-
Loans and Advances - at Amortised Cost	-	18,498,849	11,181,762	3,008,273	800,165	39,051,065	14,252,582
Debt and Other Instruments - at Amortised Cost	34,637,174	-	-	-	-	-	-
Financial Assets at FVOCI	-	-	-	-	-	-	-
	47,604,602	18,498,849	11,181,762	3,008,273	800,165	39,051,065	14,252,582

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year (Note 47).

Information Technology and Communication Services	Financial Services	Infrastructure Development	Professional, Scientific and Technical Activities	Arts, Entertainment and Recreation	Education	Health Care, Social Services and Support Service	Consumption	Total
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
-	504,952	-	-	-	-	-	-	2,225,376
-	-	-	-	-	-	-	-	5,038,345
-	4,592	-	-	-	-	-	-	4,592
335,176	7,833,598	193,555	807,824	816,972	792,069	646,530	37,495,809	150,684,024
-	-	-	-	-	-	-	-	35,198,761
-	3,752	-	-	-	-	-	-	3,752
335,176	8,346,894	193,555	807,824	816,972	792,069	646,530	37,495,809	193,154,850

Information Technology and Communication Services	Financial Services	Infrastructure Development	Professional, Scientific and Technical Activities	Arts, Entertainment and Recreation	Education	Health Care, Social Services and Support Service	Consumption	Total
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
-	254,208	-	-	-	-	-	-	2,917,288
-	-	-	-	-	-	-	-	10,304,348
-	1,530,441	-	-	-	-	-	-	1,530,441
-	93,013	-	-	-	-	-	-	93,013
413,639	4,585,635	338,845	4,524,302	913,457	633,832	274,974	32,274,398	130,751,778
-	-	-	-	-	-	-	-	34,637,174
-	6,158	-	-	-	-	-	-	6,158
413,639	6,469,455	338,845	4,524,302	913,457	633,832	274,974	32,274,398	180,240,200

Notes to the Financial Statements

37.2.9.3 Concentration by Geography

Geographical concentration for loans and advances within Sri Lanka is given below.

Province	2021 Rs 000	2020 Rs 000
Central	17,331,938	14,929,633
Eastern	4,506,146	3,092,709
North Central	5,071,022	4,640,972
North Western	9,157,049	7,620,641
Northern	4,381,664	2,838,089
Sabaragamuwa	6,423,272	5,577,651
Southern	10,132,658	8,949,433
Uva	3,502,021	2,981,326
Western	90,178,254	80,121,324
Total	150,684,024	130,751,778

37.3 Liquidity Risk

Liquidity Risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Hence, the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, 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.

37.3.1 Management of Liquidity Risk

The Bank manages liquidity risk in accordance with regulatory guidelines and accepted best practices. The objective of the Bank's liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and that market access remains cost effective. The Bank's liquidity risk management framework is designed to identify measure and manage the liquidity position in a timely manner. The Assets and Liabilities Committee (ALCO) is responsible for managing this risk through continuous monitoring of the set benchmarks and controlling risks by adopting appropriate strategies through advances, deposits and investment products. Contractual maturities of assets and liabilities, sensitivity of assets and liabilities, key liquidity ratios and monthly liquidity gaps are reviewed at ALCO meetings as measures to liquidity .The Bank maintains a portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of expected cash flows.

The Bank's Liquidity Contingency Plan is a detailed action plan document approved by the Board of Directors of the Bank indicating possible warning indicators, monitoring mechanism and the process for escalation. The plan details the specific action steps and identifies key individuals responsible for the specific action tasks. To limit liquidity risk, the Bank has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. Intraday liquidity management is about managing the daily payments and cash flows. The Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment systems.

The contractual maturities of assets and liabilities of the Bank as at the reporting date are detailed in Note 40.

The policy of the Bank is to maintain adequate liquidity at all times, at all locations and for all currencies and hence to be in a position in the normal course of business, to meet obligations, repay depositors and fulfill commitments. As a part of liquidity management, the Bank maintains borrowing relationships to ensure the continued access to diverse market of funding sources. The Bank's sound credit rating together with excellent market reputation has enabled the Bank to secure ample call lines with local and foreign Banks.

In addition, the Bank maintains a Statutory Deposit with the Central Bank of Sri Lanka equal to 4% (2020 - 2%) of Rupee deposit liabilities of the Domestic Banking Unit. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of Statutory Liquid Asset Ratio to customer liabilities, to reflect market conditions. The significant liquidity ratios during the year were as follows:

Advances to Deposit Ratio (ADR)

	2021	2020
Average	97.92%	97.09%
Year-end	105.72%	94.73%

The Bank stresses the importance of maintaining an adequate deposit base as the key source of financing loans to customers. This is monitored using the Advances to Deposit Ratio (ADR), which compares Loans and Advances (capital) as a percentage of customers deposits (capital). Cheques and drafts purchased which are deemed to be liquid, are excluded from the advances to deposit ratio.

Statutory Liquid Asset Ratio (SLAR)

	2021	2020
Average		
Domestic Banking Unit (DBU)	29.25%	27.25%
Foreign Currency Banking Unit (FCBU)	49.87%	34.35%
Year-end		
Domestic Banking Unit (Minimum Requirement - 20%)	24.18%	27.83%
Foreign Currency Banking Unit (Minimum Requirement - 20%)	58.42%	42.36%

The Bank maintains a healthy SLAR separately at DBU and FCBU levels. The Bank considers Cash balances, Balances with Licensed Commercial Banks, Money at Call in Sri Lanka, Balances with Banks Abroad, Sovereign Bonds, Treasury Bills/Bonds and Securities issued or guaranteed by the Government of Sri Lanka, Sri Lanka Development Bonds, Sovereign Bonds, Standing Deposit Facility Investments, Gilt Edged Securities, Import Bills, Export Bills and Items in the Process of Collection as 'Liquid Assets' for the purpose of SLAR Calculation.

37.3.2 Statutory Liquidity Coverage Ratio (LCR)

In addition to Statutory Liquid Assets Ratio requirement, the Bank ensures compliance with LCR requirement in accordance with Banking Act Direction No. 01 of 2015 on 'Liquidity Coverage Ratio under BASEL III Liquidity Standards for Licensed Commercial Banks and Licensed Specialised Banks'.

The Bank maintained sufficient High Quality Liquid Assets to meet minimum statutory requirement for both Sri Lankan Rupees as well as all currencies throughout the year.

High Quality Liquidity Assets are categorised into two categories.

(a) **Level 1 Assets:** Include cash in hand, qualifying reserves with the Central Bank of Sri Lanka and qualifying marketable securities that attract 0% risk weight under Basel III Capital Adequacy Framework.

(b) **Level 2 Assets:** Include Level 2A assets and Level 2B assets.

Level 2A Assets: Include qualifying marketable securities and qualifying non-financial corporate debt securities that attract a 20% risk weight under Basel III Capital Adequacy Framework and qualifying investments in gilt units trusts, subject to a 15% haircut.

Level 2B Assets: Include qualifying non-financial corporate debt securities with an external credit rating between A+ to BBB- and non-financial common equity shares, subject to a 50% haircut.

Notes to the Financial Statements

	2021	2020
Average		
- Rupee LCR	191.49%	144.32%
- All Currency LCR	222.09%	183.24%
Year end (Minimum Requirement 2021 - 100%, 2020 - 90%)		
- Rupee LCR	135.47%	177.36%
- All Currency LCR	146.83%	211.57%

37.3.3 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at the end of the reporting year. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

As at 31st December 2021	Up to 3 Months Rs 000	3 to 12 Months Rs 000	1 to 5 Years Rs 000	More than 5 Years Rs 000	Total Rs 000
Financial Assets					
Cash and Cash Equivalents	2,218,092	-	-	-	2,218,092
Balances with Central Bank of Sri Lanka	5,038,345	-	-	-	5,038,345
Derivative Financial Instruments	4,592	-	-	-	4,592
Financial Assets at FVPL	-	-	-	-	-
Loans and Advances - at Amortised Cost	48,342,349	32,521,537	65,174,731	35,030,077	181,068,694
Debt and Other Instruments - at Amortised Cost	10,476,134	3,571,471	19,171,080	4,577,116	37,795,801
Financial Assets at FVOCI	-	-	-	3,752	3,752
Total Undiscounted Financial Assets	66,079,512	36,093,008	84,345,811	39,610,945	226,129,276
Financial Liabilities					
Due to Banks	2,707,382	1,021,183	239,125	-	3,967,690
Repurchase Agreements	242,132	12,712	-	-	254,154
Derivative Financial Instruments	33	-	-	-	33
Due to Depositors - at Amortised Cost	77,487,471	58,787,615	13,655,610	1,716,364	151,647,060
Due to Debt Securities Holders - at Amortised Cost	528,512	3,363,200	10,700,236	-	14,591,948
Subordinated Debentures	52,839	-	820,000	-	872,839
Other Liabilities	108,133	229,169	819,798	280,048	1,437,148
Total Undiscounted Financial Liabilities	81,126,502	63,413,879	26,234,769	1,996,412	172,771,562
Net Undiscounted Financial Assets/(Liabilities)	(15,046,990)	(27,320,871)	58,111,042	37,614,533	53,357,714

As at 31st December 2020	Up to 3 Months Rs 000	3 to 12 Months Rs 000	1 to 5 Years Rs 000	More than 5 Years Rs 000	Total Rs 000
Financial Assets					
Cash and Cash Equivalents	2,914,163	-	-	-	2,914,163
Balances with Central Bank of Sri Lanka	10,304,348	-	-	-	10,304,348
Reverse Repurchase Agreements	1,530,441	-	-	-	1,530,441
Derivative Financial Instruments	93,013	-	-	-	93,013
Loans and Advances - at Amortised Cost	41,947,146	21,205,789	69,886,276	41,663,270	174,702,481
Debt and Other Instruments - at Amortised Cost	9,852,196	4,240,165	16,314,785	6,905,133	37,312,279
Financial Assets at FVOCI	-	-	-	6,158	6,158
Total Undiscounted Financial Assets	66,641,307	25,445,954	86,201,061	48,574,561	226,862,883
Financial Liabilities					
Due to Banks	604,344	525,940	266,305	1,475,377	2,871,966
Repurchase Agreements	892,651	6,000	-	-	898,651
Derivative Financial Instruments	79,005	-	-	-	79,005
Due to Depositors - at Amortised Cost	72,139,747	53,733,281	18,666,186	3,509,419	148,048,633
Due to Debt Securities Holders - at Amortised Cost	579,517	4,885,813	6,474,178	-	11,939,508
Subordinated Debentures	52,839	-	820,000	-	872,839
Other Liabilities	71,126	179,666	459,572	225,106	935,470
Total Undiscounted Financial Liabilities	74,419,229	59,330,700	26,686,241	5,209,902	165,646,072
Net Undiscounted Financial Assets/(Liabilities)	(7,777,922)	(33,884,746)	59,514,820	43,364,659	61,216,811

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year (Note 47).

37.3.4 Contractual Maturities of Commitments and Contingencies

The table below shows the remaining contractual maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31st December 2021	Less than 3 Months Rs 000	3 to 12 Months Rs 000	1 to 5 Years Rs 000	Over 5 Years Rs 000	Total Rs 000
Commitments and Contingencies					
Financial Guarantees	1,637,031	1,848,235	320,926	861	3,807,053
Documentary Credit	1,106,945	671,444	-	-	1,778,389
Forward Foreign Exchange Contracts	709,518	-	-	-	709,518
Currency Swaps	14,400,665	1,354,500	-	-	15,755,165
Undrawn Credit Lines	15,729,762	-	-	-	15,729,762
Total (Note 41.1)	33,583,921	3,874,179	320,926	861	37,779,887

As at 31st December 2020	Less than 3 Months Rs 000	3 to 12 Months Rs 000	1 to 5 Years Rs 000	Over 5 Years Rs 000	Total Rs 000
Commitments and Contingencies					
Financial Guarantees	1,605,368	1,773,113	501,296	200	3,879,977
Documentary Credit	1,749,763	43,336	-	-	1,793,099
Forward Foreign Exchange Contracts	2,865,250	8,085,516	-	-	10,950,766
Currency Swaps	30,538,547	5,586,895	-	-	36,125,442
Undrawn Credit Lines	14,979,200	-	-	-	14,979,200
Total (Note 41.1)	51,738,128	15,488,860	501,296	200	67,728,484

37.4 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Bank's income or the value of its holdings of financial instruments. The Bank has placed a special emphasis on the effect of market risk on fixed income securities, investments and forex positions.

Management of Market Risk

The primary objective of market risk management is to ensure that the Bank optimises that the risk reward relationship and does not expose to unacceptable losses outside its risk appetite.

The Board Integrated Risk Management Committee reviews the risk goals set for market risk management on a quarterly basis and provides valuable input and direction. These goals are compared with results achieved and are subject to a comprehensive discussion for decision making for way forward. In particular, the limits imposed by the regulator and control measures adopted for compliance are carefully monitored.

The Assets and Liabilities Committee (ALCO), in keeping with its Terms of Reference (TOR) approved by the Board, decides on short term and long term strategies of the Bank for the overall management of Assets and Liabilities based on specific needs and prevailing market situation. ALCO reviews interest rate risk, liquidity risk, Bank interest rates with competitor rates etc.

The Board approved comprehensive policy documents on Market and Liquidity Risk management, Investments, and Stress Testing in place at Bank to mitigate the market risks. In addition, a policy document defining the responsibilities of each treasury units i.e. front, back and middle office is in place. The Strategies and policies are being continuously updated according to the evolving business requirements of the Bank as well as regulatory requirements. Treasury Middle Office functions as an independent monitoring unit reporting to Chief Risk Officer.

Treasury Middle Office of the Bank monitors the comprehensive framework of Treasury operating limits approved by the Board, including open position limits, dealer limits, counter party limits, gap limits, Foreign Currency Banking Unit and Domestic operation limits on a daily basis and takes prompt action when necessary. Separate risk goals are set for market risk management and on a quarterly basis and Board Integrated Risk Management Committee reviews these risk goals and provides valuable input and direction.

37.4.1 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest Rate Risk results from the differences in the way interest rate changes affect the values of assets, liabilities, and off balance sheet instruments.

The interest rate sensitivity of Banks portfolio depends on the characteristics of the financial instruments that make up the portfolio. The interest rate sensitivity of a financial instrument depends on maturity and reprising characteristics of the financial instruments.

The Bank presently prepares the Sensitivity of Assets and Liabilities according to CBSL guideline for Interest Rate Sensitive Assets and Liabilities in prescribed time bands which is presented to Bank's Assets and Liabilities Committee on a monthly basis. Gaps are identified between assets and liabilities and the same is used to prepare the Interest Rate Risk Report.

	2021	2020
Increase in interest rates (basis points)	200 bps	200 bps
Effect on Profit or Loss and Equity (Rs'000)	(499,538)	(492,992)
Decrease in interest rates (basis points)	(200 bps)	(200 bps)
Effect on Profit or Loss and Equity (Rs'000)	582,635	614,537

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 2021	Interest Bearing				Non-Interest Bearing	Total
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets						
Cash and Cash Equivalents	-	-	-	-	2,218,092	2,218,092
Balances with Central Bank of Sri Lanka	300,041	-	-	-	4,738,304	5,038,345
Derivative Financial Instruments	-	-	-	-	4,592	4,592
Loans and Advances -at Amortised Cost	96,085,513	28,443,850	14,812,176	3,027,618	-	142,369,157
Debt and Other Instruments - at Amortised Cost	12,174,973	3,221,049	14,311,660	4,402,901	-	34,110,583
Financial Assets at FVOCI	-	-	-	-	3,752	3,752
Total Financial Assets	108,560,527	31,664,899	29,123,836	7,430,519	6,964,740	183,744,521
Financial Liabilities						
Due to Banks	2,702,787	1,003,493	205,669	-	2,446	3,914,395
Repurchase Agreements	241,706	12,448	-	-	-	254,154
Derivative Financial Instruments	-	-	-	-	33	33
Due to Depositors - at Amortised Cost	75,325,138	56,886,998	5,063,231	1,557,330	7,601,119	146,433,816
Due to Debt Securities holders - at Amortised Cost	512,621	6,418,932	6,046,937	-	-	12,978,490
Subordinated Debentures	52,839	-	820,000	-	-	872,839
Other Liabilities	108,133	229,169	819,798	280,048	-	1,437,148
Total Financial Liabilities	78,943,223	64,551,040	12,955,637	1,837,378	7,603,598	165,890,876
Total Interest Rate Sensitivity Gap	29,317,263	(32,886,141)	16,168,199	5,593,142	(338,817)	17,853,646

As at 31st December 2020	Interest Bearing				Non-Interest Bearing	Total
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets						
Cash and Cash Equivalents	-	-	-	-	2,914,163	2,914,163
Balances with Central Bank of Sri Lanka	7,720,954	-	-	-	2,583,394	10,304,348
Reverse Repurchase Agreements	1,530,441	-	-	-	-	1,530,441
Derivative Financial Instruments	-	-	-	-	93,013	93,013
Loans and Advances - at Amortised Cost	82,727,261	22,013,196	15,024,922	3,391,808	-	123,157,187
Debt and Other Instruments - at Amortised Cost	13,626,301	4,585,430	10,027,863	6,028,901	-	34,268,495
Financial Assets at FVOCI	-	-	-	-	6,158	6,158
Total Financial Assets	105,604,957	26,598,626	25,052,785	9,420,709	5,596,728	172,273,805
Financial Liabilities						
Due to Banks	567,646	521,293	263,683	1,475,377	35,377	2,863,376
Repurchase Agreements	892,426	6,225	-	-	-	898,651
Derivative Financial Instruments	-	-	-	-	79,005	79,005
Due to Depositors - at Amortised Cost	67,363,669	55,201,587	9,423,274	2,943,054	6,148,123	141,079,707
Due to Debt Securities holders - at Amortised Cost	3,263,860	5,282,930	2,090,350	-	-	10,637,140
Subordinated Debentures	52,839	-	820,000	-	-	872,839
Other Liabilities	71,126	179,666	459,572	225,106	-	935,470
Total Financial Liabilities	72,211,566	61,191,701	13,056,879	4,643,537	6,262,505	157,366,188
Total Interest Rate Sensitivity Gap	33,393,391	(34,593,075)	11,995,906	4,777,172	(665,777)	14,907,617

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year (Note 47).

37.4.2 Equity Price Risk

Equity price risk arises from the possibility that equity prices will fluctuate affecting the value of quoted equities.

Management of Equity Price Risk

The Bank does not hold any investment for strategic purposes other than the insignificant unquoted investments which are held for regulatory purposes.

Un-quoted investments classified as 'Equities at FVOCI' are carried at the fair value in the Statement of Financial Position.

37.4.3 Foreign Currency Risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or equity. The Bank is exposed to foreign exchange rate risk that the value of a financial instrument or the investment in its foreign assets, may fluctuate due to changes in foreign exchange rates.

Notes to the Financial Statements

Given below are the foreign currency exposures and their rupee equivalent in the major currencies, in which the Bank trades in:

	In Original Foreign Currency		Functional Currency of the Bank	
	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000
Net Foreign currency Exposure				
Great Britain Pound	12	(4)	3,395	(899)
United States Dollar	(837)	863	(169,898)	161,967
Euro	13	17	2,996	3,811
Japanese Yen	(3,109)	(773)	(5,483)	(1,406)

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of 5%, 10% and 15%, for depreciation on the current exchange rate and the impact on the overall foreign currency NOP (in USD) and the impact on Income Statement is shown in the table below:

NOP as at 31.12.2021			NOP as at 31.12.2020		
	USD 000	Rs 000		USD 000	Rs 000
NOP	(784,462)	(159,245,748)	NOP	898,591	168,575,695
At shock levels of %	Revised Rupee Position	Effect on Profit or Loss	At shock levels of %	Revised Rupee Position	Effect on Profit or Loss
	Rs.	Rs.		Rs.	Rs.
5	(151,283)	7,962	5	160,147	8,429
10	(143,321)	15,925	10	151,718	16,858
15	(135,359)	23,887	15	143,289	25,286

37.4.4 Volatilities in Market Interest Rates and Exchange Rates

Volatilities in market interest rates, equity prices and exchange rates are inherent due to macro economic factors available from time to time. The Bank is exposed to minimal degree of interest rate risk due to existence of a significant financial instrument book of floating/short-term nature. The bank manages interest rate risk on net basis rather than on gross basis. Due to existence of insignificant net open position, the Bank is not exposed to greater degree of currency risk. Therefore, it was not observed a significant change between the year end exposures and the during the year exposures.

37.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The Bank recognises the significance of operational risk, which is inherent in all areas of business. This includes legal risk but excludes strategic and reputation risk. Operational risks inherent in the Bank's activities are managed within acceptable levels through an appropriate level of management focus on resources.

Management of Operational Risk

The Bank has an Operational Risk Management Policy approved by the Board of Directors which clearly demonstrates the objectives and procedures in managing operational risks. This policy manual outlines the internal operating policies of the Bank's operational risk management framework. The Board Integrated Risk Management Committee oversees the implementation of the operational risk management framework.

37.6 Country Risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Bank, directly by impairing the value of the Bank or indirectly through an obligor's ability to meet its obligations to the Bank. Generally, these occurrences relate, but are not limited, to: sovereign events such as defaults or restructuring, political events such as contested elections, restrictions on currency movements, regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil, currency crisis and natural disasters.

In reality, the country risk is used to denote risks that are associated with investing in a foreign country instead of investing in the domestic market. As such the Bank's risk management framework incorporates a number of measures and tools to monitor this risk on exposures held outside Sri Lanka although such balances are insignificant.

The following table provides a summary of exposures by country of risk:

As at 31st December 2021	Sri Lanka	Asia	America	Europe	Oceania
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balances with Banks	19,377	85,794	296,233	97,817	5,731
Loans and Advances	147,896,874	2,626,468	136,468	20,034	4,180

As at 31st December 2020	Sri Lanka	Asia	America	Europe	Oceania
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balances with Banks	28,682	135,772	-	81,869	7,885
Loans and Advances	125,039,281	5,464,735	247,762	-	-

Rest of the financial asset categories does not include exposures outside the territorial boundaries of Sri Lanka, as such are not presented separately.

38 NET ASSET VALUE PER ORDINARY SHARE

	2021	2020
Total Equity Holders Funds (Rs. 000)	18,553,508	15,397,168
Number of Ordinary Shares in Issue (Note 32)	442,561,629	442,561,629
Net Asset Value Per Share (Rs.)	41.92	34.79

39 ADDITIONAL CASH FLOW INFORMATION

39.1 Cash and Cash Equivalents for Cash Flow Purpose

	2021	2020
	Rs 000	Rs 000
Cash in Hand (Note 14)	1,720,424	2,663,080
Balances with Foreign Banks (Note 14)	504,952	254,208
	2,225,376	2,917,288

The statutory deposit with Central Bank of Sri Lanka is not available to finance the Bank's day-to-day operations and therefore, is not considered as a part of cash and cash equivalents.

39.2 Change in Operating Assets

	2021	2020
	Rs 000	Rs 000
Balances with Central Bank of Sri Lanka	5,266,003	(4,971,149)
Reverse Repurchase Agreements	1,530,441	(1,466,884)
Derivative Financial Instruments	88,420	(92,569)
Financial Assets at Fair Value through Profit or Loss	-	168,177
Loans and Advances - at Amortised Cost	(20,833,287)	(13,315,032)
Debt and Other Instruments - at Amortised Cost	(561,587)	(4,494,285)
Financial Assets at Fair Value through Other Comprehensive Income	2,406	-
Other Assets	(1,367,347)	(349,995)
	(15,874,951)	(24,521,737)

Notes to the Financial Statements

39.3 Change in Operating Liabilities

	2021 Rs 000	2020 Rs 000
Due to Banks	1,051,018	2,341,540
Repurchase Agreements	(644,497)	(1,484,003)
Derivative Financial Instruments	(78,972)	78,898
Due to Depositors - at Amortised Cost	5,354,109	18,535,683
Due to Debt Securities Holders - at Amortised Cost	306,829	11,617
Other Provisions and Accruals	(14,671)	23,261
Other Liabilities	1,196,810	477,558
	7,170,626	20,084,553

39.4 Other Non-Cash Items included in Profit Before Tax

	2021 Rs 000	2020 Rs 000
Depreciation of Property, Plant and Equipment (Note 10)	140,884	154,331
Amortisation of Right-of-Use Assets (Note 10)	268,911	218,663
Amortisation of Intangible Assets (Note 10)	50,044	43,624
Loss on Disposal of Property, Plant and Equipment	1,143	1,293
Impairment Charges (Note 8)	2,370,452	1,596,042
Defined Benefit Plan Expenses(Note 9)	68,097	76,042
	2,899,531	2,089,995

39.5 Operational Cash Flows from Interest and Dividends

	2021 Rs 000	2020 Rs 000
Interest Paid	8,134,115	11,097,669
Interest Received	18,854,944	18,573,780
Dividends Received	1,999	960

39.6 Changes in Liabilities arising from Financing Activities

	Stated Capital Rs 000	Unsecured Term Borrowings Rs 000	Subordinated Debentures Rs 000	Lease Liabilities Rs 000	Total Liabilities from Financing Activities Rs 000
At 01st January 2021	3,614,253	10,637,140	872,839	888,025	16,012,257
Cash Flows from Financing Activities					
- Receipts	-	6,843,767	-	-	6,843,767
- Repayments	-	(4,796,394)	-	(193,160)	(4,989,554)
- Interest Payments	-	(801,921)	(114,800)	(94,796)	(1,011,517)
Effect of Movement in Foreign Exchange Rate	-	315,700	-	-	315,700
Others *	-	780,198	114,800	766,369	1,661,367
As at 31st December 2021	3,614,253	12,978,490	872,839	1,366,438	18,832,020

	Stated Capital	Unsecured Term Borrowings	Subordinated Debentures	Lease Liabilities	Total Liabilities from Financing Activities
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
At 01st January 2020	3,614,253	9,512,177	-	824,180	13,950,610
Cash Flows from Financing Activities					
- Receipts	-	4,090,350	820,000	-	4,910,350
- Repayments	-	(3,176,560)	-	(193,227)	(3,369,787)
- Interest Payments	-	(801,836)	-	(87,495)	(889,331)
Effect of Movement in Foreign Exchange Rate	-	163,275	-	-	163,275
Others *	-	849,734	52,839	344,567	1,247,140
As at 31st December 2020	3,614,253	10,637,140	872,839	888,025	16,012,257

*The 'Others' row includes the effect of accrued but not yet paid interest on unsecured term borrowings, debentures, lease liabilities and change in transaction costs.

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

As at 31st December 2021	Within 12 Months	After 12 Months	Total
	Rs 000	Rs 000	Rs 000
Assets			
Cash and Cash Equivalents	2,218,092	-	2,218,092
Balances with Central Bank of Sri Lanka	5,038,345	-	5,038,345
Derivative Financial Instruments	4,592	-	4,592
Loans and Advances -at Amortised Cost	69,808,928	72,560,229	142,369,157
Debt and Other Instrument - at Amortised Cost	12,955,565	21,155,018	34,110,583
Financial Assets at FVOCI	-	3,752	3,752
Property, Plant and Equipment	-	2,335,826	2,335,826
Right-of-Use Assets	273,300	1,104,106	1,377,406
Intangible Assets	-	320,863	320,863
Other Assets	1,285,987	447,067	1,733,054
Total Assets	91,584,809	97,926,861	189,511,670
Liabilities			
Due to Banks	3,708,726	205,669	3,914,395
Repurchase Agreements	254,154	-	254,154
Derivative Financial Instruments	33	-	33
Due to Depositors - at Amortised Cost	133,123,554	13,310,262	146,433,816
Due to Debt Securities Holders - at Amortised Cost	3,328,302	9,650,188	12,978,490
Subordinated Debentures	52,839	820,000	872,839
Retirement Benefit Obligations	13,353	363,498	376,851
Current Tax Liabilities	1,252,818	-	1,252,818
Deferred Tax Liabilities	-	118,401	118,401
Other Provisions and Accruals	196,193	-	196,193
Other Liabilities	3,460,326	1,099,846	4,560,172
Total Liabilities	145,390,298	25,567,864	170,958,162
Net	(53,805,489)	72,358,997	18,553,508

Notes to the Financial Statements

As at 31st December 2020	Within 12 Months Rs 000	After 12 Months Rs 000	Total Rs 000
Assets			
Cash and Cash Equivalents	2,914,163	-	2,914,163
Balances with Central Bank of Sri Lanka	10,304,348	-	10,304,348
Reverse Repurchase Agreements	1,530,441	-	1,530,441
Derivative Financial Instruments	93,013	-	93,013
Loans and Advances - at Amortised Cost	52,236,532	70,920,655	123,157,187
Debt and Other Instrument - at Amortised Cost	13,515,211	20,753,284	34,268,495
Financial Assets at FVOCI	-	6,158	6,158
Property, Plant and Equipment	-	2,307,882	2,307,882
Right-of-Use Assets	249,677	733,688	983,365
Intangible Assets	-	346,697	346,697
Other Assets	594,591	434,067	1,028,659
Total Assets	81,437,976	95,502,432	176,940,408
Liabilities			
Due to Banks	1,124,316	1,739,060	2,863,376
Repurchase Agreements	898,651	-	898,651
Derivative Financial Instruments	79,005	-	79,005
Due to Depositors - at Amortised Cost	122,971,923	18,107,784	141,079,707
Due to Debt Securities Holders - at Amortised Cost	4,857,590	5,779,550	10,637,140
Subordinated Debentures	52,839	820,000	872,839
Retirement Benefit Obligation	24,888	360,786	385,674
Current Tax Liabilities	825,102	-	825,102
Deferred Tax Liabilities	-	159,835	159,835
Other Provisions and Accruals	210,864	-	210,864
Other Liabilities	2,846,371	684,676	3,531,047
Total Liabilities	133,891,549	27,651,692	161,543,240
Net	(52,453,573)	67,850,740	15,397,168

The presentation and classification of previous year have been amended for better presentation and to be comparable with those of the current year (Note 47).

41 COMMITMENTS AND CONTINGENCIES

Accounting Policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits are not probable or cannot be reliably measured.

The Bank enters into various irrevocable commitments and contingent liabilities to meet the financial needs of customers. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. Operating lease commitments of the Bank and pending legal claims against the Bank too form a part of commitments of the Bank. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. But these contingent liabilities do contain credit risk and are therefore form a part of the overall risk of the Bank.

Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the Financial Statements within 'Other Liabilities' at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or Loss in the Statement of Comprehensive Income and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in Profit or Loss in the Statement of Comprehensive Income under 'Impairment Charges'. The premium received is recognised in Profit or Loss in the Statement of Comprehensive Income in 'Fee and Commission Income' on a straight line basis over the life of the guarantee.

Details of Commitments and Contingencies are given below;

41.1 Commitments and Contingencies

As at 31st December	2021 Rs 000	2020 Rs 000
Financial Guarantees	3,807,053	3,879,977
Documentary Credit	1,778,389	1,793,099
Forward Foreign Exchange Contracts	709,518	10,950,766
Currency Swaps	15,755,165	36,125,442
Undrawn Credit Commitments	15,729,762	14,979,200
Total (Note 37.3.4)	37,779,887	67,728,484

Impairment allowances on undrawn credit commitments are included under impairment allowances for respective loan products in Note 18.6, whereas impairment allowances on financial guarantees and documentary credit are given under Note 29 - Other Liabilities.

There are no significant capital commitments as at the date of the Statement of Financial Position (2020-Nil).

41.2 Material Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

Pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a reasonable security to cover the damages are not considered here as the Bank does not expect cash outflows from such claims. However, further adjustments are made to the Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the probability of the outcome and also based on a reasonable estimation. The Bank's legal counsel is of the opinion that litigations which are currently pending will not have a material impact on the reported financial results or future operations of the Bank.

Notes to the Financial Statements

42 LEASE ARRANGEMENTS

42.1 Finance Lease Receivables

The Bank leases a variety of assets such as motor vehicles, machinery and equipment to third parties under finance leases. At the end of the lease terms assets may be sold to third parties or 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 2021	Total Future Minimum Lease Payments Rs 000	Unearned Finance Income Rs 000	Present Value of Minimum Lease Payments Rs 000
Lease Rentals Receivable			
- Within one year	4,920,530	1,031,669	3,888,861
- After one year but not more than five years	7,810,985	1,233,236	6,577,749
- More than five years	9,344	595	8,749
Total (Note 18.1)	12,740,859	2,265,500	10,475,359

As at 31st December 2020	Total Future Minimum Lease Payments Rs 000	Unearned Finance Income Rs 000	Present Value of Minimum Lease Payments Rs 000
Lease Rentals Receivable			
- Within one year	4,584,780	1,093,049	3,491,731
- After one year but not more than five years	7,285,209	1,317,243	5,967,966
- More than five years	40,068	3,180	36,888
Total (Note 18.1)	11,910,057	2,413,472	9,496,585

Accumulated allowance for uncollectible minimum lease payments are disclosed in Note 18.6.

43 RELATED PARTY DISCLOSURE

The Bank has carried out transactions in the ordinary course of business with parties who are defined as 'Related Parties' as defined in LKAS 24 :- ' Related Party Disclosures'. The terms and conditions of such transactions are disclosed under Note 43.4 and Note 43.5.

43.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

43.2 Transactions with Key Management Personnel of the Bank

The Bank has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the Bank as the 'Key Management Personnel' in accordance with LKAS 24 : 'Related Party Disclosures'. Accordingly, the Chief Executive Officer and the Board of Directors have been identified as 'Key Management Personnel' (KMP) for Accounting and Financial Reporting purposes.

43.3 Compensation of Key Management Personnel of the Bank

The following represents the compensation paid to Key Management Personnel of the Bank.

	2021 Rs 000	2020 Rs 000
Short-term Benefits	63,837	57,795
Retirement Benefits	3,833	3,577
	67,670	61,372

Short-term benefits represent salaries, bonuses and other related expenses of Managing Director/Chief Executive Officer and fees paid to Non Executive Directors. Retirement Benefits includes the Bank's contribution for Employees' Provident Fund and Employees' Trust Fund with regard to KMP's.

43.4 Transactions with Key Management Personnel of the Bank

The Bank enters into transactions, arrangements and agreements with Key Management Personnel and Close family members of Key Management Personnel in the ordinary course of business. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest/commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for individual impairment losses on amounts owed by the Key Management Personnel and their Close Family Members.

As at 31st December	2021			2020		
	Limit Rs 000	Closing Balance Rs 000	Average Balance Rs 000	Limit Rs 000	Closing Balance Rs 000	Average Balance Rs 000
Assets						
Loans and Advances	1,100	17	27,393	1,650	54,768	52,466
Liabilities						
Deposits	-	143,726	293,717	-	443,707	418,452
Subordinated Debentures	-	50,000	50,000	-	50,000	25,000

	2021 Rs 000	2020 Rs 000
Income and Expenses		
Interest Income	1,210	1,275
Interest Expense	36,087	47,635
Fee and Commission Income	-	1

Notes to the Financial Statements

43.5 Transactions with Other Related Parties of the Bank

In addition to transactions with Key Management Personnel and their Close Family Members, the Bank enters into transactions, arrangements and agreements with entities that are controlled or joint controlled by the Key Management Personnel and their Close Family Members in the ordinary course of business. The transactions below were made in the ordinary course of business on substantially the same terms, including interest/commission rates and security, as for comparable transactions with unrelated counterparties. The transaction did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for individual impairment losses on amounts owed by related parties.

As at 31st December	2021			2020		
	Limit	Closing Balance	Average Balance	Limit	Closing Balance	Average Balance
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets						
Loans and Advances	-	-	-	1,500	-	-
Liabilities						
Deposits	-	-	552	-	1,105	2,019

	2021	2020
	Rs 000	Rs 000
Income and Expenses		
Interest Expense	1	2
Fee and Commission Income	2	-

44 EVENTS AFTER THE REPORTING DATE

No events after the reporting date since 31st December 2021 that require adjustments to or disclosures in the Financial Statements, other than disclosed below;

One-off Surcharge Tax

The Government of Sri Lanka in its Budget for 2022 has proposed a one-time tax, referred to as a surcharge tax of 25% to be imposed on companies that have earned a taxable income in excess of Rs. 2,000 million for the year of assessment 2020/2021. The proposed tax should be deemed an expenditure in the Financial Statements relating to the year of assessment 2020/2021.

The Bill introducing the proposed tax was published after the reporting date and it has not been placed on the Order Paper of the Parliament for its first reading before the date these Financial Statements were authorised for issue. The proposed tax has not been substantively enacted by the end of the reporting date. Therefore, the Financial Statements have not been adjusted to reflect the consequences of this proposal.

45 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital requirements of the local prudential regulator, the Central Bank of Sri Lanka. The adequacy of the Bank's Capital is monitored using among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BCBS) and adopted by the Central Bank of Sri Lanka.

Capital Management

The main objectives of the Bank's capital management policy are to ensure the Bank maintains sufficient capital to meet regulatory capital requirements, hold sufficient capital to support the Bank's risk appetite, provide additional capital to business segments to achieve strategic objectives, to provide a buffer in absorbing potential losses arising from various risks and safeguarding of depositor funds and ensuring that the Bank maintaining required capital levels in order to achieve credit rating objectives.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to the shareholders or issue capital securities, all of which are under the constant review by the Board of Directors and the relevant Board Committees.

The Banking Act Direction No. 01 of 2016 on 'Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's)' prescribes minimum capitals ratios for banks depending on the size of the asset base and other factors. Non D-SIBs (Domestic Systematically Important Banks) including Pan Asia Banking Corporation PLC need to maintain following minimum capital ratio requirements with effective from 01st January 2019.

Components of Capital	Requirement
Common Equity Tier 1 including Capital Conservation Buffer	7.00%
Total Tier 1 including Capital Conservation Buffer	8.50%
Total Capital Ratio including Capital Conservation Buffer	12.50%

The 'Total Capital' under BASEL III consists Common Equity Tier 1 Capital which comprises Stated Capital, Statutory Reserve Fund, Published Retained Earnings and Other General Reserves less Cost of Intangible Assets. The other component of Tier 1 Capital is Additional Tier 1 Capital.

Tier 2 Capital is the other component of the Total Capital includes approved Revaluation Surpluses, Subordinated Term Debt, 100% of impairment for Stage 1 Assets and 50% of impairment for Stage 2 assets subject to maximum limit of 1.25% Risk Weighted Amount for Credit Risk.

The Bank reported a Common Equity Tier 1 (CET 1) Capital Ratio of 13.82%, Total Tier 1 Capital Ratio of 13.82% and Total Capital Ratio of 15.97% as at 31st December 2021 which remained well above the minimum regulatory requirements. The Bank has absorbed 100% of the Day 1 impact of SLFRS 9 adoption in computation of the above capital ratios as at 31st December 2021 as prescribed by the Central Bank of Sri Lanka in the Guideline No. 04 of 2018 on 'Adoption of SLFRS 9 - Financial Instruments'.

In addition to above, the Bank is required to enhance its Total Tier 1 Capital to Rs. 20 billion by 31st December 2022 as required by the Banking Act Directions on 'Enhancement of Minimum Capital Requirements of Banks'. The Bank's Tier 1 Capital as at 31st December 2021 stood at Rs. 17.50 billion. The Board of Directors are confident that the above target could be to be met through combination of internally generated funds of the Bank and infusion of fresh capital.

The Bank expects to submit a revised Capital Augmentation Plan to meet the above capital requirement to the Central Bank of Sri Lanka with the Annual Internal Capital Adequacy Assessment Process (ICAAP) document by 31st May 2022 in accordance with the Banking Act Direction No. 01 of 2016 on 'Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's)'.

46 SEGMENT REPORTING

Accounting Policy

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

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

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

Treasury and Investments function includes trading function, financing and other central functions, use of derivatives for risk management purpose, investment products and services to institutional investors and intermediaries. The Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Financial Statements.

Income taxes and overhead expenses are managed on an entity basis and are not allocated to operating segments. Interest income is reported on net basis as the management primarily relies on net interest income as a performance measure, not the gross income and expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Revenue from transactions with no single external customer or counterparty amounted to 10% or more of the Bank's total revenue during the year.

Notes to the Financial Statements

	2021			
	Retail & SME Banking Rs 000	Corporate Banking Rs 000	Treasury and Investments Rs 000	Total Rs 000
Gross Income				
Third Party	16,846,510	1,055,658	3,201,366	21,103,534
Inter-Segment	2,207,352	(270,580)	(1,936,772)	-
Total Income	19,053,862	785,078	1,264,594	21,103,534
Extract of Results				
Interest Income	14,983,026	1,040,274	2,775,001	18,798,301
Interest Expense	(8,538,651)	(493,980)	(123,934)	(9,156,565)
Inter - Segment	2,207,352	(270,580)	(1,936,772)	-
Net Interest Income	8,651,727	275,714	714,295	9,641,736
Fees and Commission Income	1,805,847	15,381	-	1,821,228
Fees and Commission Expense	(30,397)	-	(7,898)	(38,295)
Net Fee and Commission Income	1,775,450	15,381	(7,898)	1,782,933
Net Gain from Trading	-	-	92,257	92,257
Other Operating Income	57,637	3	334,108	391,748
Total Operating Income	10,484,814	291,098	1,132,762	11,908,674
Impairment Charges	(943,500)	(703,295)	(723,657)	(2,370,452)
Net Operating Income	9,541,314	(412,197)	409,105	9,538,222
Depreciation of Property, Plant and Equipment	140,037	232	615	140,884
Amortisation of Intangible Assets	45,736	-	4,308	50,044
Segment Result	9,355,541	(412,429)	404,182	9,347,294
Un-allocated Expenses	-	-	-	4,436,064
Operating Profit Before VAT on Financial Services	-	-	-	4,911,230
Value Added Tax on Financial Services	-	-	-	877,577
Profit Before Tax	-	-	-	4,033,653
Income Tax Expense	-	-	-	958,295
Profit for the Year	-	-	-	3,075,358
Other Comprehensive Income for the Year	-	-	-	80,982
Total Comprehensive Income for the Year	-	-	-	3,156,340
Segment Assets	132,363,658	13,989,704	34,662,738	181,016,100
Unallocated Assets	-	-	-	8,495,570
Total Assets	132,363,658	13,989,704	34,662,738	189,511,670
Segment Liabilities	145,726,715	11,761,011	6,966,003	164,453,729
Unallocated Liabilities and Equity	-	-	-	25,057,941
Total Liabilities and Equity	145,726,715	11,761,011	6,966,003	189,511,670
Cash Flows Used in Operating Activities	(6,890,903)	(2,645,567)	8,196,043	(1,340,427)
Cash Flows Used in Investing Activities				
Capital Expenditure				
Property, Plant & Equipment	(169,771)	(112)	(319)	(170,202)
Intangible Assets	(24,210)	-	-	(24,210)
Proceeds from Sale of Property, Plant & Equipment	231	-	-	231
Cash Flows Generated from Financing Activities	2,337,999	(1,494,046)	(1,257)	842,696

	2020			
	Retail & SME Banking	Corporate Banking	Treasury and Investments	Total
	Rs 000	Rs 000	Rs 000	Rs 000
Gross Income				
Third Party	16,119,488	1,473,451	3,288,486	20,881,425
Inter-Segment	1,657,061	(311,174)	(1,345,887)	-
Total Income	17,776,549	1,162,277	1,942,599	20,881,425
Extract of Results				
Interest Income	14,803,458	1,424,834	2,592,721	18,821,013
Interest Expense	(10,681,881)	(695,308)	(74,075)	(11,451,264)
Inter - Segment	1,657,061	(311,174)	(1,345,887)	(0)
Net Interest Income	5,778,637	418,353	1,172,759	7,369,749
Fees and Commission Income	1,298,251	47,782	-	1,346,033
Fees and Commission Expense	(57,468)	(1,625)	(10,876)	(69,969)
Net Fee and Commission Income	1,240,783	46,157	(10,876)	1,276,064
Net Gain from Trading	-	-	478,880	478,880
Other Operating Income	17,779	835	216,885	235,499
Total Operating Income	7,037,199	465,344	1,857,649	9,360,192
Impairment Charges	(1,008,654)	(342,301)	(245,087)	(1,596,042)
Net Operating Income	6,028,545	123,044	1,612,561	7,764,150
Depreciation of Property, Plant and Equipment	151,987	1,052	1,292	154,331
Amortisation of Intangible Assets	39,315	-	4,309	43,624
Segment Result	5,837,243	121,992	1,606,960	7,566,195
Un-allocated Expenses	-	-	-	(4,037,994)
Operating Profit Before VAT on Financial Services	-	-	-	3,528,201
Value Added Tax on Financial Services	-	-	-	690,035
Profit Before Tax	-	-	-	2,838,166
Income Tax Expense	-	-	-	789,998
Profit for the Year	-	-	-	2,048,168
Other Comprehensive Income for the Year	-	-	-	20,212
Total Comprehensive Income for the Year	-	-	-	2,068,380
Segment Assets	118,036,026	8,703,367	43,919,725	170,659,118
Unallocated Assets	-	-	-	6,281,290
Total Assets	118,036,026	8,703,367	43,919,725	176,940,408
Segment Liabilities	145,160,607	9,501,834	1,768,278	156,430,719
Unallocated Liabilities and Equity	-	-	-	20,509,689
Total Liabilities and Equity	145,160,607	9,501,834	1,768,279	176,940,408
Cash Flows Generated from Operating Activities	5,591,060	9,407,931	(14,241,065)	757,926
Cash Flows Used in Investing Activities				
Capital Expenditure				
Property, Plant & Equipment	(92,098)	(92)	-	(92,190)
Intangible Assets	(109,469)	-	-	(109,469)
Proceeds from Sale of Property, Plant & Equipment	138	-	-	138
Cash Flows Generated from Financing Activities	45,390	607,394	(1,552)	651,232

Notes to the Financial Statements

47 RECLASSIFICATIONS AND COMPARATIVE FIGURES

The following line items in the Statement of Financial Position as at 31st December 2020 were reclassified/restated to conform to the current year's presentation.

	Note	Reclassified/ Restated Rs 000	As Reported in 2020 Rs 000
Financial Assets at Amortised Cost - Debt and Other Instruments			
Standing Deposit Facilities	19	-	7,720,954
Balances with Central Bank of Sri Lanka			
Non-Statutory Balance with Central Bank of Sri Lanka (Standing Deposit Facilities)	15	7,720,954	-
Financial Assets at Amortised Cost - Debt and Other Instruments			
Securities Purchased Under Resale Agreements	19	-	1,530,441
Repurchase and Reverse Repurchase Transactions in Scripless Treasury Bonds and Scripless Treasury Bills			
Reverse Repurchase Agreements	17.1	1,530,441	-
Financial Liabilities at Amortised Cost - Due to Debt Securities Holders			
Securities Sold Under Resale Agreements	27	-	898,651
Repurchase and Reverse Repurchase Transactions in Scripless Treasury Bonds and Scripless Treasury Bills			
Repurchase Agreements	17.2	898,651	-
Other Liabilities			
Defined Benefit Plan - Retiring Gratuity Obligation	29	-	385,674
Retirement Benefit Obligations	30	385,674	-

The reclassifications do not have a material impact on Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows presented in 2020.

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

The following explains the Other Disclosure Requirements under the prescribed format issued by the Central Bank of Sri Lanka for the Preparation of Annual Financial Statements of Licensed Commercial Banks.

1.	**Information about the Significance of Financial Instruments for Financial Position and Performance**		
1.1	**Statement of Financial Position**		
1.1.1	Disclosures on categories of financial assets and financial liabilities.		Note 35 to the Financial Statements - Analysis of Financial Assets and Liabilities by Measurement basis
1.1.2	Other Disclosures		
	(i)	Special disclosures about financial assets and financial liabilities designated to be measured at Fair Value through Profit or Loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Not Applicable
	(ii)	Reclassifications of financial instruments from one category to another.	Not Applicable
	(iii)	Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 18.4 and 19.2 to the Financial Statements
	(iv)	Reconciliation of the allowance account for credit losses by class of financial assets.	Note 14.1,18.6,19.3 and 29.2 to the Financial Statements
	(v)	Information about compound financial instruments with multiple embedded derivatives.	Not Applicable
	(vi)	Significant Breaches of terms of loan agreements.	There are no significant breaches of the terms of loan agreements
1.2	**Statement of Comprehensive Income**		
1.2.1	Disclosures on items of income, expense, gains and losses.		Note 4-12 to the Financial Statements
1.2.2	Other Disclosures		
	(i)	Total interest income and total interest expense for those financial instruments that are not measured at Fair Value through Profit or Loss.	Note 4.2 to the Financial Statements - Net Interest Income from Financial Instruments not measured at Fair Value through Profit or Loss
	(ii)	Fee income and expense.	Note 5 to the Financial Statements - Net Fee and Commission Income
	(iii)	Amount of impairment losses by class of financial assets.	Note 8 to the Financial Statements-Impairment charges on Financial Assets
	(iv)	Interest income on impaired (non-performing) financial assets.	Note 4.3 to the Financial Statements
	(v)	Profit generated through all interbank foreign exchange transactions including end user transactions where one leg is in the interbank market.	Note 6.2 to the Financial Statements
1.3	**Other Disclosures**		
1.3.1	Accounting policies for financial instruments.		Note 2.9 to the Financial Statements - Summary of Significant Accounting Policies
1.3.2	Financial liabilities designated as at FVTPL		
	(i)	If a bank is presenting the effects of changes in that financial liability's credit risk in other comprehensive income (OCI): - any transfers of the cumulative gain/loss within equity during the period, including the reasons for the transfers; - if the liability is derecognised during the period, then the amount (if any) presented in OCI that was realised at derecognition; - detailed description of the methodologies used to determine whether presenting the effects of changes in a liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss; and	Not Applicable
	(ii)	Detailed description, if the effects of changes in a liability's credit risk are presented in profit or loss.	Not Applicable

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

1.3.3	Investments in equity instruments designated as at FVOCI		
	(i)	Details of equity instruments that have been designated as at FVOCI and the reasons for the designation;	Not Applicable
	(ii)	Fair value of each investment at the reporting date;	Not Applicable
	(iii)	Dividends recognised during the period, separately for investments derecognised during the reporting period and those held at the reporting date;	Not Applicable
	(iv)	Any transfers of the cumulative gain or loss within equity during the period and the reasons for those transfers;	Not Applicable
	(v)	If investments in equity instruments measured at FVOCI are derecognised during the reporting period, - reasons for disposing of the investments; - fair value of the investments at the date of derecognition; and - the cumulative gain or loss on disposal	Not Applicable
1.3.4	Reclassifications of financial assets		
	(i)	For all reclassifications of financial assets in the current or previous reporting period: - date of reclassifications; - detailed explanation of the change in the business model and a qualitative description of its effect on the financial statements; and - the amount reclassified into and out of each category.	Not Applicable
	(ii)	For reclassifications from FVTPL to amortised cost or FVOCI: - the effective interest rate (EIR) determined on the date of reclassification; and - the interest revenue recognised.	Not Applicable
	(iii)	For reclassifications from FVOCI to amortised cost, or from FVTPL to amortised cost or FVOCI: - the fair value of the financial assets at the reporting date; and - the fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified.	Not Applicable
1.3.5	Information on hedge accounting		Not Applicable
1.3.6	Information about the fair values of each class of financial asset and financial liability, along with:		
	(i)	Comparable Carrying Amounts.	Note 36 to the Financial Statements - Fair Value of Financial Instruments
	(ii)	Description of how fair value was determined.	
	(iii)	The level of inputs used in determining fair value.	
	(iv)	(a) Reconciliations of movements between levels of fair value measurement hierarchy.	Not Applicable
		(b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	Not Applicable
	(v)	Information if fair value cannot be reliably measured.	Note 20 to the Financial Statements - Financial Assets at FVOCI

2	**Information about the Nature and Extent of Risks Arising from Financial Instruments**	
2.1	**Qualitative Disclosures**	
2.1.1	Risk exposures for each type of financial instrument.	Note 37 to the Financial Statements - Risk Management
2.1.2	Management's objectives, policies, and processes for managing those risks	Note 37 to the Financial Statements - Risk Management
2.1.3	Changes from the prior period.	Not Applicable
2.2	**Quantitative Disclosures**	
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	Note 37 to the Financial Statements - Risk Management
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	Note 37 to the Financial Statements - Risk Management
	(i) Credit Risk	
	- Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets. - For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset. - Information about collateral or other credit enhancements obtained or called.	Note 37.2 to the Financial Statements - Risk Management Report on pages 195 to 210
	- Other disclosures refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Basel III Pillar 3 Disclosures on Pages 248 to 250
	(ii) Liquidity Risk	
	- A maturity analysis of financial liabilities. - Description of approach to risk management.	Note 37.3 to the Financial Statements - Risk Management Report on pages 210 to 214
	- Other disclosures refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 01 of 2016 on Capital Requirements Under Basel III for Licensed Banks.	Basel III Pillar 3 Disclosures on Pages 256 to 259
	(iii) Market Risk	
	- A sensitivity analysis of each type of market risk to which the entity is exposed. - Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	Note 37.4 to the Financial Statements - Risk Management Report on pages 214 to 218
	- Other disclosures, refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Basel III Pillar 3 Disclosures on Pages 255 to 256
	(iv) Operational Risk	
	- Refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Basel III Pillar 3 Disclosures on Pages 259 to 262

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

	(v)	Equity risk in the Banking Book - Qualitative disclosures Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 37.4 to the Financial Statements - Risk Management Report on pages 214 to 218
		- Quantitative disclosures Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value, the types and the nature of investments and the cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Not Applicable
	(vi)	Interest rate risk in the Banking Book - Qualitative disclosures Nature of interest rate risk in the banking book (IRRBB) and key assumptions. - Quantitative disclosures The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	Basel III Pillar 3 Disclosures on Page 262
2.2.3	Information on concentration of risk		Note 37.2.9 to the Financial Statements - Risk Management Report on pages 207 to 210
3	**Other Disclosures**		
3.1	**Capital**		
3.1.1	Capital structure		
		Qualitative disclosures - Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments. - Quantitative disclosures. (a) The amount of Tier 1 capital, with separate disclosure of: - Paid-up share capital/common stock - Reserves - Non-controlling interests in the equity of subsidiaries - Innovative instruments - Other capital instruments - Deductions from Tier 1 capital (b) The total amount of Tier 2 capital (c) Other deductions from capital (d) Total eligible capital	Basel III Pillar 3 Disclosures on Pages 238 to 244
3.1.2	Capital Adequacy		
		Qualitative disclosures - A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities. - Quantitative disclosures (a) Capital requirements for credit risk, market risk and operational risk (b) Total and Tier 1 capital ratio	Basel III Pillar 3 Disclosures on Pages 235 to 262

Basel III Pillar 3 Disclosures

Contents

Basel III Pillar 3 Disclosures

Introduction

The Bank recognises, best corporate governance practices jointly with effective risk management techniques which directs the Bank towards the sustainable achievement in business goals while staying above the minimum regulatory requirements. The Banks usually operate in a vulnerable environment and are highly exposed to risk. Therefore, the Bank places a higher emphasis on a continuous basis on improving risk management processes and operating with sufficient level of capital to support its risk absorption capacity and business expansions. The Bank's risk management team has to play a vital role in maintaining prudential risk management practices across the Bank which enables early detection of down side risks in all its businesses and other operations.

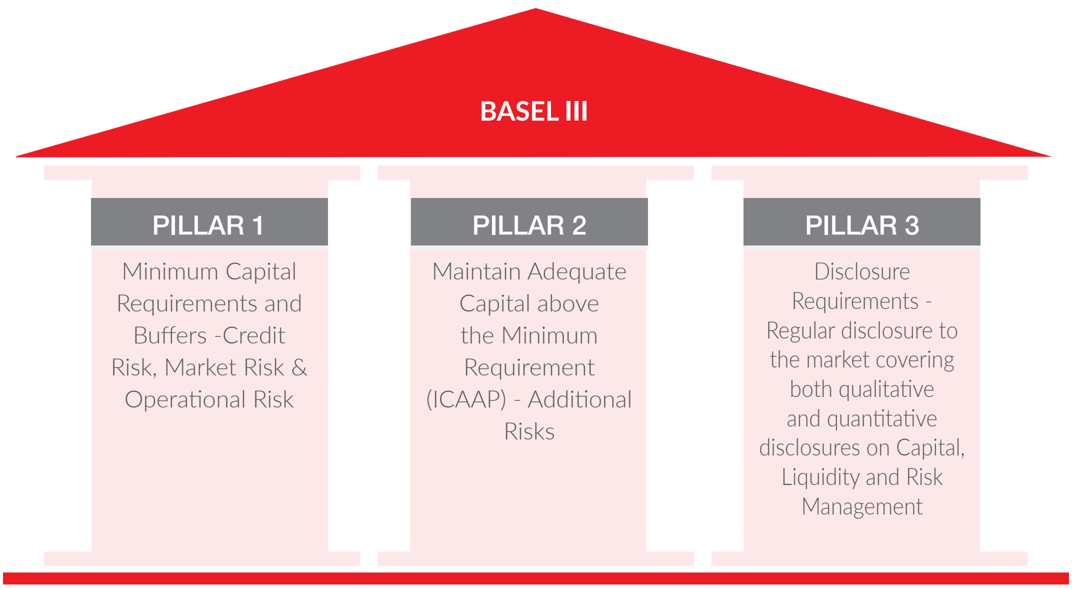
Based on empirical data and close analysis of market behaviour, the Bank is of the belief that effective investment in robust risk management practices would facilitate in mitigating the credit, market, operational and the other risk factors facing the Bank.

Further use of market discipline is deemed to be an important driver in the enhancement of the risk management system from the Bank as well as the stakeholders' perspective. Therefore, the Bank believes comprehensive disclosure of capital level in relation to the credit risk, market risk and operational risk levels would fulfill the expectations of the regulators as well as other stakeholders at large.

Scope of Basel III Framework

The Basel Committee on Bank Supervision (BCBS) has implemented a set of capital, liquidity and funding reforms known as "Basel III". The objectives of reforms are to increase the quality, consistency and transparency of capital to enhance the risk management framework of Licensed Banks.

Accordingly, the Central Bank of Sri Lanka has issued Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's) on 29th December 2016. As per the direction, Capital Requirements applicable for a Licensed Commercial Bank from 01st July 2017 onwards consist of three pillars.



Pillar 1 - Minimum Capital Requirements and Buffers

Commencing from 01st July 2017, every LCB & LSB need to comply with minimum capital ratios and the buffers as prescribed in the direction. The minimum required capital ratios vary among the Banks depending on the size of the asset base. For the purpose of the direction, Central Bank of Sri Lanka has identified Banks with over Rs.500 billion asset base as "Domestic Systemically Important Banks (D-SIB's)" and prescribed higher minimum Capital buffers than that of banks with less than Rs.500 billion assets.

Accordingly, the Banks have to maintain capital ratios and the buffers as prescribed in the below tables;

Minimum Capital Ratio Requirement for Banks with Assets of Rs.500 billion and above (Table 1)

Components of Capital	01.01.2019
Common Equity Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	8.50%
Total Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	10.00%
Total Capital Ratio Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	14.00%

Minimum Capital Ratio Requirement for Banks with Assets less than Rs.500 billion (Table 2)

Components of Capital	01.01.2019
Common Equity Tier 1 Including Capital Conservation Buffer	7.00%
Total Tier 1 Including Capital Conservation Buffer	8.50%
Total Capital Ratio Including Capital Conservation Buffer	12.50%

Since the Bank's asset base is below Rs. 500 billion at the moment, minimum capital ratio requirement stipulated in Table 2 applies.

Higher Loss Absorbency (HLA) Requirements for Domestic Systemically Important Banks

Monetary Board of Central Bank has issued Banking Act Direction No 10 of 2019 "Framework for Dealing with Domestic Systemically Important Banks" on 20 December 2019.

This framework attempts to identify the banks whose failure has a larger impact on the financial system due to size, interconnectedness, lack of substitutability and complexity and requires maintaining higher loss absorbency (HLA) by such banks.

Primary objective of the implementation of the D-SIBs framework is D-SIBs to hold higher capital buffers and to provide incentives to reduce their systemic importance on the domestic economy.

The minimum capital surcharge on D-SIBs is as follows:

Bucket	HLA Requirement (CET 1 as a % of Risk-Weighted Assets)
3	2.0
2	1.5
1	1.0

Factors Considered in Assessment of D-SIBs

Category	Individual Indicator	Category Weighting
Size	Total exposure (Total exposures used in the Basel III leverage ratio.)	40%
Interconnectedness	Intra-financial system assets Intra-financial system liabilities Securities outstanding	20%
Substitutability / financial institution infrastructure	Assets under custody Trading volume Payments activity	20%
Complexity	Notional amount of derivatives Level 2 assets as reported under Liquidity Coverage Ratio Cross jurisdictional liabilities Cross jurisdictional claims Trading and available for sale (AFS) securities	20%

Basel III Pillar 3 Disclosures

Licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs), from time to time have to maintain additional Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1 Capital.

However as per eligible criterions defined in the direction to be categorised as D-SIB, it is likely that additional HLA capital requirements will not be applicable for our Bank given the total exposure measure coming under Leverage Ratio is account for below the minimum exposure value of Rs.400 billion specified by the regulator under disclosure requirements in the directions.

The Bank's Total exposures coming under Basel III leverage ratio was Rs. 204.50 billion as at 31st December 2021

Pillar 2 - Maintain Adequate Capital above the Minimum Requirement (ICAAP)

The Bank needs to maintain adequate capital buffers to safeguard itself from the exposure to risk as specified in the direction. Under Pillar 2, a Board approved ICAAP document needs to be submitted to the Central Bank for supervisory review process. ICAAP lets Banks to identify, analyse and quantify its risk exposures using different methodologies, techniques and to quantify required level of capital to absorb the risks.

Further under pillar 2, Banks are instructed to scrutinise different types of risks which are not covered/fully captured under Pillar 1. Accordingly, following risk categories also need to be quantified and allocation of capital needs to be done in computing the Pillar 2 Capital Ratios.

- Risks not fully captured under Pillar 1 - Concentration risk (credit risk), interest rate/rate of return risk in the Banking book (market risk) etc.

- Risk types not covered under Pillar 1 - Liquidity risk, concentration risk, reputational risk, compliance risk, strategic and business risk, residual risk. etc. (risks which are not specifically addressed under Pillar 1)

The Bank has already developed an ICAAP policy and framework which closely indicate the risk and capital assessment processes which ensures that adequate level of capital are maintained to support the Bank's current and projected demand for capital under expected and stressed conditions.

Pillar 3 - Disclosure Requirements

Commencing from 01st July 2017, the Bank needs to disclose the regulator prescribed key information in relation to regulatory capital, liquidity and risk management with the published financial statements, in the annual report and in the web site.

Pillar 3 aims to provide consistent and comprehensive disclosure framework that enhances comparability between Banks and further promotes improvements in risk practices.

The Bank has implemented a Pillar 3 policy and procedure framework to address the requirements laid down for pillar 3 disclosures.

The complete disclosure report of information regarding capital management in accordance with Basel III- Pillar 3 is provided of which quantitative information regarding capital structure, capital adequacy and monitoring of liquidity standards is disclosed on a quarterly basis. The disclosures on Bank's risk management approach and risk management related to key risk exposures are disclosed on an annual basis.

Scope of Application

In compliance with the requirements under Basel III Pillar 3 and the Bank's approved policies, the Bank discloses below set of information on quarterly and annually as prescribed by CBSL.

1) Regulatory Requirements on Capital Adequacy and Liquidity
    - i) Key Regulatory Ratios - Capital and Liquidity
    - ii) Basel III Computation of Capital Adequacy Ratio
    - iii) Basel III Computation of Leverage Ratio
    - iv) Basel III Computation of Liquidity Coverage Ratio
    - v) Basel III Computation of Net Stable Funding Ratio
    - vi) Main Features of Regulatory Capital Instruments

2) Risk Weighted Assets (RWA)
   i) Capital Management
   ii) Credit Risk under Standardised Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects
   iii) Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights
   iv) Market Risk under Standardised Measurement Method
   v) Operational Risk under Basic Indicator Approach

3) Linkages Between Financial Statements & Regulatory Exposures
   i) Differences Between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories
   ii) Explanations of Differences Between Accounting and Regulatory Exposure Amounts

4) Risk Management
   i) Bank's Risk Management Approach
   ii) Risk Management related to Key Risk Exposures

Key Regulatory Ratios - Capital and Liquidity

As at	31.12.2021	31.12.2020
Regulatory Capital (Rs '000)		
Total Common Equity Tier 1 Capital	17,497,080	14,657,973
Common Equity Tier 1 Capital	17,176,217	14,311,276
Tier 1 Capital	17,176,217	14,311,276
Total Capital	19,852,075	17,014,768
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement -7.00%, 2020 -6.50%)	13.82%	13.24%
Tier 1 Capital Ratio (Minimum Requirement -8.50%, 2020 - 8.00%)	13.82%	13.24%
Total Capital Ratio (Minimum Requirement -12.50%, 2020 -12.00%)	15.97%	15.74%
Leverage Ratio (Minimum Requirement -3%)	8.40%	6.70%
Regulatory Liquidity		
Statutory Liquid Assets DBU (Rs'000)	40,823,849	43,213,986
Statutory Liquid Assets OBU (USD'000)	32,240	23,418
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	24.18	27.83
Off-Shore Banking Unit (%)	58.42	42.36
Liquidity Coverage Ratio (%)		
Rupee (Minimum Requirement - 100%, 2020 - 90%)		
All Currency (Minimum Requirement -100%, 2020 - 90%)	146.83	211.57
Net Stable Funding Ratio (%) (Minimum Requirement -100%, 2020 - 90%)	126.71	116.80

Capital Management

Capital planning assists the Bank to determine how much capital it needs to continue its growth and produce meaningful earnings as well as to meet regulatory requirements. For an effective capital plan, the Bank should be able to anticipate;

- when it will be needed
- various methods of raising capital
- the current environment for raising capital
- the best way to protect/enhance shareholder value and the likely pricing of capital

Basel III Pillar 3 Disclosures

Further the Bank's capital plan is dynamic and regularly reviews to reflect business forecasts as they evolve during the course of each year. The strategy setting and planning is presented to the Board of Directors on an annual basis with regular update on financial outlook and performance as to the capital adequacy is aligned with the business plan.

Capital planning of the Bank is mainly focus on;

- Demand for capital due to business growth forecast
- Current & future regulatory capital requirement
- Available supply of capital and capital raising sources for future requirements

Overview of Capital Planning

The senior management of the Bank is responsible for the management of the capital &liquidity and establishment of compliance with internal policies as well as regulatory standards relating to capital & liquidity management.

The Bank's capital position is monitored on a continuous basis and reported to the Board Strategic Planning Committee meetings. The Bank sets the tolerance levels for capital adequacy ratios in the ICAAP mechanism and if any breach or noncompliance to be foreseen, decisions are taken to enhance capital position or restructure business lines to fill the gap.

Further capital forecasts are performed in line with detailed strategic plan of the Bank which is updated on an annual basis. The Bank regularly monitors the actual position against the strategic measures and if any deviation to be captured, relevant business heads are informed of corrective actions.

In addition, significant emphasis is given to scrutinise the behavior of the material risk exposures. If any adverse movement is monitored in recovery patterns of the credit exposures on a regular basis, credit monitoring unit of the Bank stays on alert for early detection and recovery process before moving to non performing category. This is exactly why the Bank established a Credit Monitoring Unit to ensure the facilities would not fall in to non performing status.

Manage the Risk Weighted Assets of the Bank

- Maintain Non Performing Advances (NPAs) level in accordance with the set targets by minimising new additions to past due and non performing categories
- Regular monitoring of overdue loans position of the Bank and avert new NPAs.
- Ensure capital and interest recoveries are made to the Bank according to the forecasts
- High yielding lending to good credit quality customers.
- Obtain eligible collateral for facilities to minimise capital charge on credit risk.
- Concentrate on customers with investment grade or above grades when granting facilities.
- More focus towards cash backed/government security backed lending carrying zero risk levels
- Concentrate on Retail and SME lending with background checks in view of lower risk weight and lucrative returns.

Projected Capital Initiatives/Capital Sources

An assessment of the future capital requirement of the Bank is carried out by taking in to account several factors which include but not limited to the future strategy, growth projection and regulatory requirement. The adequacy of current and future capital is continuously monitored quite closely in line with the Bank's short, medium and long term goals stated in the strategic plan plus considering any emerging market opportunities. The proper mapping of credit, market and operational risk to this projected business growth enables assignment of capital that not only adequately covers minimum regulatory capital requirement but also provide headroom for growth.

The Bank complied with minimum regulatory capital and liquidity standards set for year 2021 with the contribution of anticipated internal capital generation over the period.

Complying with Rs.20 Billion Minimum Capital Requirement

As per the Banking Act Direction No. 05 of 2017 on "Enhancement of Minimum Capital Requirements of Banks" issued on 26th October 2017 by Central Bank of Sri Lanka, commencing from 31st December 2020 all Banks are mandated to enhance its Capital position (Common Equity Tier 1 Capital + Additional Tier 1 Capital) up to Rs. 20 Billion. However, under the extraordinary measures adopted by CBSL to strengthen the resilience capital of the LCBS to support COVID 19 affected customers, capital enhancement of LCBs has been deferred until end of 2022.

As at 31.12.2021, the Bank's Common Equity Tier 1 Capital stood at Rs.17.50 Billion and Bank needs to enhance its Total Tier 1 Capital to Rs. 20 billion by 31st December 2022. The Bank expects to meet Rs. 20 Bn through a combination of internally generated funds of the Bank and infusion of fresh capital. The Board approved Capital Augmentation Plan will be incorporated into the ICAAP document which will be submitted to CBSL by 31st May 2022.

Capital Structure and Capital Adequacy

The Bank's capital structure according to the Banking Act Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB) and Licensed Specialised Banks (LSB) is divided in to Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital.

Common Equity Tier 1 (CET 1) Capital of the Bank comprises;

- Stated Capital
- Retained Earnings after appropriation
- Statutory Reserve Fund

At present the Bank has no instrument eligible for Additional Tier 1 (AT1) Capital.

Tier 2 Capital Comprises;

- Eligible Subordinated Debt instruments (limited to 50% of CET 1 Capital)
- 100% of impairment for assets in Stage 1 and 50% of impairment provisions for assets in Stage 2 subject to maximum limit of 1.25% Risk Weighted Assets in Credit Risk.
- Approved Revaluation Surpluses on Freehold Land and Building (Subject to a discount of 50%)

As per the regulatory directive, maximum eligible Tier 2 capital is capped at 100% of CET1 Capital.

The Structure of the total Regulatory Capital of the Bank as at 31st December 2021 is as follows,

As at	31-12-2021 Rs 000
Common Equity Tier I (CETI) Capital after Adjustments	17,176,217
Total Common Equity Tier I (CET1) Capital before Adjustments	17,497,080
Stated Capital	3,614,253
Reserve Fund	794,893
Published Retained earnings	13,137,896
Published Accumulated Other Comprehensive Income (OCI)	(49,963)
Total Adjustments to CET1 Capital	320,863
Other Intangible Assets (net)	320,863
Additional Tier 1 (AT1) Capital after Adjustments	-
Tier 2 Capital after Adjustments	2,675,858
Total Tier 2 Capital	2,675,858
Qualifying Tier 2 Capital Instruments	615,000
Revaluation Gains	660,978
General Provisions	1,399,881
Total Adjustments to Tier 2 Capital	-
Total Tier 1 Capital	17,176,217
Total Capital	19,852,075

Basel III Pillar 3 Disclosures

Basel III Computation of Capital Ratios

As at	31-12-2021 Rs 000	31-12-2020 Rs 000
Common Equity Tier 1 (CET1) Capital after Adjustments	17,176,217	12,572,621
Common Equity Tier 1 (CET1) Capital	17,497,080	12,853,473
Stated Capital	3,614,253	3,614,253
Reserve Fund	794,893	641,125
Published Retained Earnings	13,137,896	10,424,886
Published Accumulated Other Comprehensive Income (OCI)	(49,963)	(22,292)
General and other Disclosed Reserves	-	-
Unpublished Current Year's Profit/Losses and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to CET1 Capital	320,863	346,697
Goodwill (net)	-	-
Intangible Assets (net)	320,863	346,697
Others	-	-
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (ATI) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others	-	-
Tier 2 Capital after Adjustments	2,675,858	2,703,492
Tier 2 Capital	2,675,858	2,703,492
Qualifying Tier 2 Capital Instruments	615,000	820,000
Revaluation Gains	660,978	676,690
Loan Loss Provisions	1,399,881	1,206,802
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2 Capital	-	-
Investment in Own Shares	-	-
Others	-	-
CET1 Capital	17,176,217	14,311,276
Total Tier 1 Capital	17,176,217	14,311,276
Total Capital	19,852,075	17,014,768
Total Risk Weighted Assets (RWA)	124,297,568	108,118,388
RWAs for Credit Risk	111,990,461	96,544,148
RWAs for Market Risk	173,527	178,491
RWAs for Operational Risk	12,133,581	11,395,748
CET1 Capital Adequacy Ratio (including Capital Conservation Buffer) (%)	13.82	13.24
of which: Capital Conservation Buffer (%)	2.50	2.00
Total Tier 1 Capital Adequacy Ratio (%)	13.82	13.24
Total Capital Adequacy Ratio (including Capital Conservation Buffer) (%)	15.97	15.74
of which: Capital Conservation Buffer (%)	2.50	2.00

Regulatory Changes/ Capital Initiatives over the Period

- Tier 1 Capital has been changed during the period due to capitalisation of internal capital generation for 2021
- Tier 2 Capital has been changed due to movements in impairment provision for stage 1 & stage 2 assets.

Leverage Ratio

The Basel Committee on Banking Supervision (BCBS) introduced a leverage ratio in the 2010 under Basel III package of reforms with intention of introducing a framework with a simple, transparent, non-risk based.

The Leverage Ratio to act as a credible supplementary measure to the risk based capital requirement in order to restrict the build-up of leverage in the banking sector, helping to avoid any destabilising deleveraging processes which can damage the broader financial system and the economy, and reinforce the risk-based requirements with a simple, non-risk based "backstop" measure.

The Central Bank of Sri Lanka has issued Direction No 12 of 2018 on "Leverage Ratio under Basel III for Licensed Commercial Banks and Licensed Specialised Banks" on 28th December 2018.

Minimum Leverage Ratio requirement for licensed banks is 3% and need to be computed as prescribed below.

$$\text{Leverage Ratio} = \frac{\text{Capital Measure}}{\text{Exposure Measure}} \times 100$$

Capital Measure is the Tier 1 Capital as specified in the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III and both on and off balance sheet exposures including derivative exposures has to be considered under exposure measure.

Computation of Leverage Ratio

As at	31.12.2021 Rs 000	31.12.2020 Rs 000
Tier 1 Capital	17,176,217	14,311,276
Total Exposures	204,500,338	213,562,780
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	187,649,592	172,731,290
Derivative Exposures	11,707,531	34,007,390
Securities Financing Transaction Exposures	1,842,810	3,862,420
Other Off-Balance Sheet Exposures	3,300,405	2,961,680
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	8.40	6.70

Basel III Pillar 3 Disclosures

Main Features of Regulatory Capital Instruments

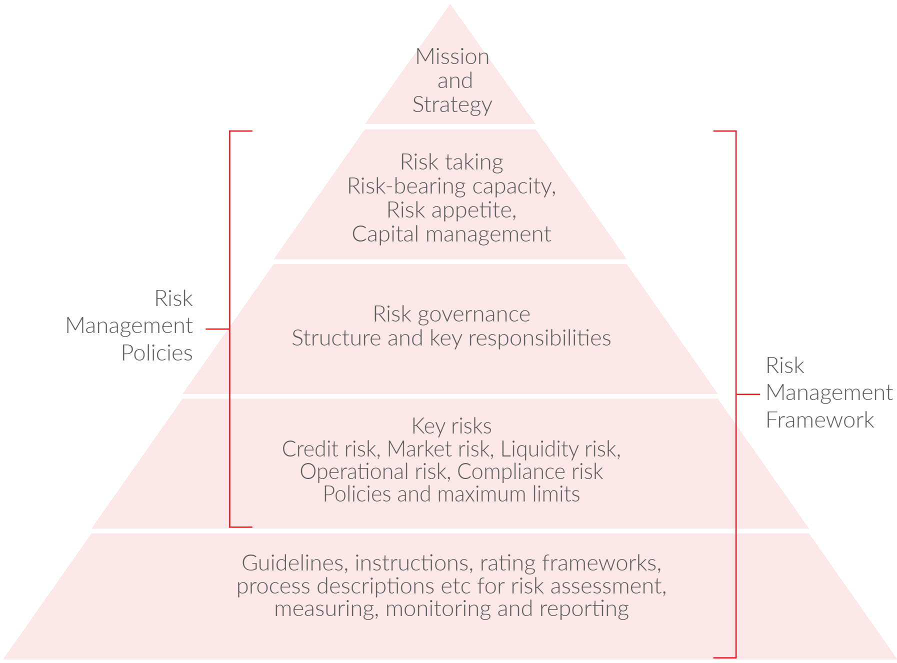
	Ordinary Shares	Subordinated Debt
Issuer	Pan Asia Banking Corporation PLC	Pan Asia Banking Corporation PLC
CSE Security Code	PABC N0000	N/A
Governing Law(s) of the Instrument	Companies Act No.7 of 2007	Companies Act No.7 of 2007 Monetary Law Act No. 58 of 1949
Original Date of Issuance	Multiple	17.07.2020
Par Value of Instrument (Rs.)	N/A	100
Perpetual or Dated	Perpetual	Dated
Original Maturity Date	N/A	16.07.2025
Regulatory Treatment		
Instrument Type	Common Equity Tier 1	Tier 2 Capital
Amount recognised in Regulatory Capital (in Rs. Mn as at 31st December 2021)	3,614	615
Accounting Classification (Equity/Liability)	Shareholders' Equity	Liability (Debenture Issued)
Issuer Call subject to Prior Supervisory Approval	No	Yes
Optional Call Date, Contingent Call Dates and Redemption Amount	N/A	Early repayment or redemption shall not be made without the prior consent from CBSL. The redemption amount of the debentures equal to total outstanding principal (Rs.820 Mn) plus accrued interest
Coupons/Dividends		
Fixed or Floating Dividend/Coupon	Discretionary dividend amount	Fixed Rate
Coupon Rate and any Related Index	Distributable profit that has been declared as dividend	14% (Semi Annual Interest Payment)
Non-Cumulative or Cumulative	Non Cumulative	Non Cumulative
Convertible or Non-Convertible	Non-Convertible	Convertible
If Convertible, Conversion Trigger (s)	N/A	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016
If Convertible, Fully or Partially	N/A	Fully
If Convertible, Mandatory or Optional	N/A	Mandatory
If Convertible, Conversion Rate	N/A	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share during the three months (03) period, immediately preceding the date of the Trigger Event.

Risk Management Approach

Managing risk constitutes an integral part in the role of banking operations and also in the areas of strategic decisions of the Bank. The main objective of the Bank's risk management unit is to asses various risk factors that affect the Bank and to develop risk mitigating techniques incorporating industry best practices and stipulations given by the regulator. The Bank's exposure to risk can be broadly categorised into credit risk, market risk and operational risk. In addition to these risks, the impact of other risks such as liquidity risk, reputational risk, compliance risk, strategic risk, information security risk and legal risk are monitored to avoid any additional impact to the Bank. Therefore, the Bank has set up separate units to manage credit, market, operational and information security risks.

The overall risk management aspects of the Bank are reviewed via risk goals and tolerance/ exposure limits set by the Board Integrated Risk Management Committee.

The high-level principles for risk management are implemented through policies, operational procedures, guidelines as well as methodologies, tolerance & exposure limits and tools for risk measuring, monitoring and reporting. The risk management framework of the Bank is formed by incorporating all these factors and same is illustrated in the below diagram.



Further information Risk Management can be found in;

- Risk Management objectives, policies and processes and Risk Management structure - page 192 of Bank's Annual Report 2021
- Risk Management function – page 194 of Bank's Annual Report 2021

Channels to communicate and inculcating the risk culture within the Bank

The responsibility of understanding the risks assumed by the Bank and ensuring that the risks are appropriately managed is vested with the Board of Directors. The Board ensures that the Bank has established a robust and acceptable risk culture with clear policies that define risk management as the responsibility of Bank's corporate and senior management subject to the oversight of the Board establishing limits based on risk appetite of the Bank. The senior management has established an integrated risk management framework in order to assess and appropriately manage various risk exposures of the Bank, develop systems to monitor risk exposures and relate them to Bank's capital on an ongoing basis, establishing methods to monitor the Bank's compliance with internal policies relating to risk management and effectively communicate all policies and procedures throughout the Bank via Bank's intranet, e-learning platforms and training programmes. All policies and procedures are effectively documented in the form of policy manuals, circular instruction, work flow processes and published in the Bank's intranet to provide the access to all staff members of the Bank.

Basel III Pillar 3 Disclosures

The scope and main features of risk measurement systems for key risks

The Bank continuously reviews and improves risk assessment tools for different types of risks that the Bank faces in line with the growth of portfolios. The tools including credit rating and credit scoring tools are implemented in systems to ensure efficiency of rating/scoring and model performance monitoring. Moreover, the Bank has also put in place of a Risk aggregation matrix to assess the overall risk of the Bank by aggregating the overall score of each risk area. Risk dash boards are maintained to monitor all risk parameters and stress tests are being carried out in regular intervals, under various possible stress scenarios, to access the Bank's ability to face those conditions comfortably if those scenarios are actually triggered.

Process of risk information reporting provided to the board and senior management

The Bank's risks are recorded according to the breaches that have taken place, expected /predicted losses and unexpected cases which may arise in future. The estimated figures of cases are monitored on regular intervals for prevention and mitigations. These events are in line with the internal risk management processes established by the Bank. Monitoring of risk is carried out against predetermined limits as per policies. Management Information System reports are generated and submitted to the Corporate Management based on these risks indicators. Certain industries are identified specially and highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted on agreed intervals to the Board/Management committees to measure the risk exposure across all types of risks and activities. This contains the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports indicate aggregate credit exposures, credit metric forecasts, hold limit exceptions, liquidity ratios. Further elaborations are done on industry, concentration, customer and geographical risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored regularly for adherence. Delegated authority limits have been imposed to each approving authority in the business lines to control exposure to risks. Those outwit such limits are referred to Credit Risk Management Committee/Board Credit Committee for approval.

Stress Testing

Stress testing is an important risk management tool that is used by the Bank as part of their internal risk management measures. The Stress testing alerts the Bank management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur.

Moreover, stress testing is a tool that supplements other risk management approaches and measures. It plays a particularly important role in:

- Providing forward-looking assessments of risk.
- Feeding into capital and liquidity planning procedures.
- Informing the setting of the Banks' risk tolerance.
- Facilitating the development of risk mitigation or contingency plans across a range of stressed conditions.

The Main Risk drivers may be identified under following areas;

On and off balance sheet activities, business strategy, portfolio composition, asset quality, reputational events, operating environment, macro-economic factors (interest rate, foreign exchange rate, inflation, GDP growth, unemployment rate, asset prices, property price index), geographical and political factors, historical events; and latest development in the economic, political, geographical and global conditions and perspectives.

Stress Testing Approaches and Applications

Stress testing approaches that the Bank adopts to ascertain the risks of the portfolios.

Sensitivity Analysis

This assesses the impact on a Bank's financial condition of a move in one particular risk factor, identify how portfolios respond to shifts in relevant economic variables or risk parameters. i.e. Banks exposures, activities, and risks when certain variables, parameters, and inputs are 'stressed' or 'shocked.'

Scenario Analysis

Single factor analysis can be supplemented by simple multi-factor sensitivity analyses, where a combined occurrence of some risk drivers is assumed, without necessarily having a scenario in mind. Scenario tests include simultaneous moves in a number of variables based on the following and the assessment of their impact on the Bank's financial position.

- A single event experienced in the past.
- A plausible market event that has not yet happened. The Bank shall determine the various risks that shall be included in a scenario, take into account the linkages among the various risks without looking at each of them.

The Strategies and Processes to Manage Hedge and Mitigate Risks

Possible credit losses from any given event, client or portfolio are mitigated using a range of tools such as collateral, credit insurance, credit derivatives taking into account expected volatility and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the protection provider. The requirement for risk mitigation is not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

The Bank's credit policies detailed out the guidelines of key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements. The Bank has policies and procedures in place setting out the criteria for collateral to be recognised as a credit risk mitigant, including requirements concerning legal certainity, priority, concentration, correlation, liquidity and valuation parameters such as frequency of review and independence.

Types of Collateral

Collateral types that are eligible for risk mitigation include cash, residential, commercial and industrial property, fixed assets such as motor vehicles, plant and machinery, marketable securities, commodities,Bank guarantees and letters of credit. Physical collateral, such as property, fixed assets and commodities and financial collateral must be independently valued and an active secondary resale market must exist. The valuation frequency sets as per the CBSL direction and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure.

For financial collateral to be eligible for recognition, the collateral must be sufficiently liquid, and its value over time sufficiently stable, to provide appropriate certainty as to the credit protection achieved.

Documentation is obtained in favour of the Bank to realise the collateral without the intervention of the obligor in the event that this is necessary. For certain types of lending, typically mortgages or asset financing where a first charge over the risk mitigant must be attained, the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. Physical collateral is required to be insured at all times against risk of physical loss or damage.

Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of liquidation. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios. The Bank also seeks to diversify its collateral holdings across asset classes and markets.

Where guarantees, credit insurance or credit derivatives are used as credit risk mitigation, the creditworthiness of the protection provider is assessed and monitored using the same credit approval process applied to the obligor. The main types of guarantors include Bank guarantees, insurance companies, parent companies, governments and export credit agencies.

Credit Concentration

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

Sector Concentration

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

Strategic Risk

Strategic Risk is the risk arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation.

Reputation Risk

Reputation Risk is the risk arising from negative public opinion. This risk may expose the institution to litigation, financial loss or decline in customer base.

Basel III Pillar 3 Disclosures

Risk Weighted Assets

Credit Risk

Credit Risk is the potential for loss due to the failure counterparty to meet its obligation to pay the Bank in accordance with agreed terms. It is managed through a framework that setout credit policies and procedure and credit approval authority delegation. Further policies are decided to reflect the country specific risk environment and portfolio characteristics of the Bank.

The Bank computes risk weighted assets on credit exposures using the Standardised Approach Method. In assigning risk weights for calculation of risk weighted assets using the standardised approach under Basel III, the Bank uses credit ratings from External Credit Assessment Institutions (ECAIs) who meet the qualifications specified by the CBSL. The credit ratings from External Credit Assessment institutions are applied to risk weight the claims on Banks, financial institutions and corporate customers. Claims on Retail and SME customers are risk weighted based on the criteria's specified in the directions.

Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31st December 2021	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density	
Asset Class	On-Balance Sheet Amount Rs 000	Off-Balance Sheet Amount Rs 000	On-Balance Sheet Amount Rs 000	Off-Balance Sheet Amount Rs 000	RWA Rs 000	RWA Density (%) (ii)
Claims on Central Government and Central Bank of Sri Lanka	39,268,270	-	38,968,270	-	1,288,606	3%
Claims on Bank's Exposures	894,147	15,277,499	894,147	305,550	1,235,537	103%
Claims on Financial Institutions	3,282,047	391,191	3,282,047	1,191	2,014,562	61%
Claims on Corporates	19,390,999	2,201,390	18,558,336	232,121	18,395,641	98%
Retail Claims	100,540,404	17,340,253	93,320,956	2,721,206	74,670,441	78%
Claims Secured by Gold	13,140,128	-	13,140,128	-	2,276,057	17%
Claims Secured by Residential Property	3,687,267	-	3,687,267	-	2,795,931	76%
Non-Performing Assets (NPAs)	5,123,248	-	5,093,964	-	5,518,108	108%
Higher-risk Categories	3,752	-	3,752	-	5,628	150%
Cash Items and Other Assets	5,518,091	-	5,518,091	-	3,789,951	69%
Total Assets	190,848,353	35,210,333	182,466,958	3,260,068	111,990,461	60%

Notes:

(i) NPAs - As per Banking Act Direction No. 03 of 2008 (as amended subsequently) on classification of Loans and Advances, income recognition and provisioning.

(ii) RWA Density - Total RWA/Exposures post CCF and CRM.

The growth in balance sheet is contributed for the increase in risk weighted assets.

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (Post CCF & CRM)

As at 31st December 2021 Asset Class	Risk Weight 0% Rs 000	 2.0% Rs 000	 10% Rs 000	 20% Rs 000	 35% Rs 000	 50% Rs 000	 60% Rs 000	 75% Rs 000	 100% Rs 000	 150% Rs 000	Total Credit Exposures Rs 000
Claims on Central Government and Central Bank of Sri Lanka	26,082,208	-	12,886,062	-	-	-	-	-	-	-	38,968,270
Claims on Banks Exposures	-	305,550	-	89,849	-	96,455	-	-	395,950	311,893	1,199,697
Claims on Financial Institutions	-	-	-	-	-	2,537,353	-	-	745,885	-	3,283,238
Claims on Corporates	-	-	-	127,067	-	1,001,041	-	-	17,450,940	211,409	18,790,457
Retail Claims	-	-	-	245,856	-	400,519	3,113,645	80,505,053	11,777,090	-	96,042,162
Claims Secured by Gold	1,759,845	-	-	11,380,283	-	-	-	-	-	-	13,140,128
Claims Secured by Residential Property	-	-	-	-	1,371,286	-	-	-	2,315,981	-	3,687,267
Non-Performing Assets (NPAs)	-	-	-	-	-	330,639	-	-	3,584,397	1,178,927	5,093,964
Higher-risk Categories	-	-	-	-	-	-	-		-	3,752	3,752
Cash Items and Other Assets	1,720,424	-	-	9,645	-	-	-	-	3,788,022	-	5,518,091
Total	29,562,477	305,550	12,886,062	11,852,701	1,371,286	4,366,006	3,113,645	80,505,053	40,058,265	1,705,981	185,727,026

Credit Risk under Standardised Approach Classified by Geographical Area of Debtor (After Credit Conversion Factor (CCF) and CRM)

As at 31st December 2021 Asset Class	Outside Sri Lanka Rs 000	Province Central Rs 000	 Eastern Rs 000	 North Central Rs 000	 North Western Rs 000	 Northern Rs 000	 Sabaragamuwa Rs 000	 Southern Rs 000	 Uva Rs 000	 Western Rs 000	Total Rs 000
Claims on Central Government and Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-	38,968,270	38,968,270
Claims on Banks Exposures	498,196	-	-	-	-	-	-	-	-	701,500	1,199,696
Claims on Financial Institutions	-	-	-	-	-	-	-	-	-	3,283,239	3,283,239
Claims on Corporates	-	265,958	-	-	272,358	-	-	783,759	-	17,468,382	18,790,457
Retail Claims	-	13,477,007	2,222,809	4,511,985	7,301,085	1,492,075	5,237,482	7,724,018	2,991,315	51,084,386	96,042,162
Claims Secured by Gold	-	1,596,321	2,149,897	190,134	1,061,411	2,606,060	603,905	760,931	305,951	3,865,518	13,140,128
Claims Secured by Residential Property	-	263,010	23,647	43,064	70,818	66,475	105,095	282,734	25,875	2,806,549	3,687,267
Non-Performing Assets (NPAs)	-	550,857	68,569	147,875	181,555	81,230	199,447	300,745	77,490	3,486,197	5,093,964
Higher-risk Categories	-	-	-	-	-	-	-	-	-	3,752	3,752
Cash Items and Other Assets	-	-	-	-	-	-	-	-	-	5,518,091	5,518,091
Total Assets	498,196	16,153,153	4,464,921	4,893,058	8,887,227	4,245,840	6,145,929	9,852,187	3,400,631	127,185,884	185,727,026

Basel III Pillar 3 Disclosures

Gross Loans and Advances - by Sector/Industry (As per Regulatory Reporting)

As at 31st December 2021	Performing Loans & Advances	Special Mention (NPLs)	Substandard (NPLs)	Doubtful (NPLs)	Loss (NPLs)	Total NPLs	Total Loans & Advances
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Agriculture, Forestry & Fishing	23,577,407	52,220	47,316	42,368	825,487	967,391	24,544,798
Arts, Entertainment & Recreation	804,873	-	17,991	-	85,237	103,228	908,101
Construction & Infrastructure Development	37,879,860	268,393	509,961	341,474	1,761,035	2,880,863	40,760,723
Consumption	31,041,464	163,164	139,670	101,049	896,833	1,300,717	32,342,181
Education	473,584	7,950	27,947	4,375	14,157	54,429	528,013
Financial Services	7,093,627	2,389	64,938	-	404,347	471,674	7,565,301
Health Care, Social Services & Support Services	232,826	-	1,371	277	1,871	3,519	236,345
Information Technology and Communication Services	233,110	-	-	-	54,995	54,995	288,105
Manufacturing	12,763,908	77,714	118,053	413,383	1,280,298	1,889,448	14,653,356
Professional, Scientific & Technical Activities	4,222,101	41,405	56,318	21,169	16,192	135,084	4,357,185
Tourism	2,766,291	51,279	25,264	6,193	284,941	367,677	3,133,968
Transportation & Storage	3,261,864	30,587	85,931	95,723	9,462	221,704	3,483,568
Wholesale & Retail Trade	16,086,185	86,638	227,448	126,706	846,972	1,287,765	17,373,950
Total	140,437,099	781,739	1,322,210	1,152,717	6,481,829	9,738,495	150,175,594

Gross Loans & Advances - by Geography (As per Regulatory Reporting)

As at 31st December 2021	Performing Loans & Advances	Special Mention (NPLs)	Substandard (NPLs)	Doubtful (NPLs)	Loss (NPLs)	Total NPLs	Total Loans & Advances
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Central	16,459,326	51,268	69,065	31,458	738,286	890,078	17,349,403
Eastern	4,398,480	5,699	13,323	11,278	75,402	105,703	4,504,183
North Central	4,814,879	26,086	33,451	4,938	173,773	238,249	5,053,128
North Western	8,811,615	21,492	32,584	28,150	250,633	332,859	9,144,474
Northern	4,272,753	717	29,419	18,853	71,615	120,604	4,393,357
Sabaragamuwa	6,088,830	13,475	21,829	64,169	217,148	316,622	6,405,452
Southern	9,681,094	90,983	112,852	23,800	189,066	416,702	10,097,797
Uva	3,384,054	11,270	20,174	9,930	67,624	108,998	3,493,052
Western	82,526,068	560,748	989,512	960,141	4,698,280	7,208,681	89,734,749
Total	140,437,099	781,739	1,322,210	1,152,717	6,481,829	9,738,495	150,175,594

Further Explanation on the Bank approach to manage credit risk can be found in:

- Graphical presentation of exposures subject to credit risk by major types, geographical areas, sectors and risk rating wise - page 72 of Bank's Annual Report 2021 (Risk Management).
- Maximum Exposures to Credit Risk by asset class – page 202 of Bank's Annual Report 2021.
- Industry Analysis of Financial Assets - pages 207 to 209 of Bank's Annual Report 2021.
- Break down of credit exposures classified by residual maturity - pages 221 to 222 of Bank's Annual Report 2021.
- Breakdown of exposures subject to credit risk in to impaired and non impaired including impairment allowances and the explanation on non impaired and impaired loans - pages 206 to 207 of Bank's Annual Report 2021.

Reconciliation of Regulatory Capital to Financial Statements

As at 31st December 2021	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets	189,511,669	187,336,727	187,011,272	4,592	320,863
Cash and Cash Equivalents (Note 01)	2,218,093	2,225,377	2,225,377	-	-
Balances with Central Bank	4,738,304	4,738,304	4,738,304	-	-
Derivative Financial Instruments	4,592	4,592	-	4,592	-
Financial Assets recognised through Profit or Loss -Measured at Fair Value	-	-	-	-	-
Loans and Advances - at Amortised Cost (Note 02)	142,369,158	140,729,711	140,729,711	-	-
Debt and Other Instruments - at Amortised Cost (Note 02)	34,410,624	35,498,802	35,498,802	-	-
Financial Assets - FVOCI	3,752	3,752	3,752	-	-
Property, Plant and Equipment	2,335,823	2,335,823	2,335,823	-	-
Right-of-Use Asset (Note 03)	1,377,407	-	-	-	-
Intangible Assets	320,863	320,863	-	-	320,863
Deferred Tax Asset	-	-	-	-	-
Other Assets (Note 04)	1,733,053	1,479,502	1,479,502	-	-
Liabilities	170,958,161	169,197,671	-	-	-
Due to Banks	3,914,396	3,914,396	-	-	-
Derivative Financial Instruments	33	33	-	-	-
Due to Depositors - at Amortised Cost (Note 05)	146,433,817	146,561,893	-	-	-
Due to Debt Securities holders - at Amortised Cost	13,232,643	13,278,437	-	-	-
Senior Debentures	-	-	-	-	-
Current Tax Liabilities (Note 07)	1,252,818	1,006,592	-	-	-
Deferred Tax Liabilities (Note 07)	118,401	173,212	-	-	-
Other Provisions and Accruals	196,193	183,185	-	-	-
Other Liabilities (Note 06)	4,937,021	3,207,083	-	-	-
Subordinated Debentures	872,839	872,839	-	-	-
Off-Balance Sheet Liabilities					
Guarantees	2,736,773	2,736,773	2,736,773	-	-
Performance Bonds	1,070,278	1,070,278	1,070,278	-	-
Letters of Credit	1,778,389	1,778,389	1,778,389	-	-
Other Contingent Items	16,464,684	16,464,684	16,464,684	-	-
Undrawn Loan Commitments	15,729,762	15,729,762	15,729,762	-	-
Shareholders' Equity					
Stated Capital	3,614,253	3,614,253	-	-	-
of which Amount Eligible for CET1	3,614,253	3,614,253	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings (Note 08)	13,932,789	13,518,339	-	-	-
Other Reserves (Note 08)	1,006,465	1,006,465	-	-	-
Total Shareholders' Equity	18,553,507	18,139,057	-	-	-

Basel III Pillar 3 Disclosures

Reconciliation Notes – Table 11

Note 01- Cash and Cash Equivalents

The Bank recognises impairment provisions for the balances with foreign banks in accordance with SLFRS 9 - Financial Instruments

As at 31st December 2021	Rs 000
Cash and Cash Equivalents Value as per Published Financial Statements (SLFRSs)	2,218,093
Cash and Cash Equivalents Value as per Regulatory Reporting	2,225,377
Change in Value	(7,284)

Note 02- Financial Assets at Amortised Cost

(i) Loans and Advances

As at 31st December 2021	Rs 000
Loans and Advances	
Carrying Value as per Published Financial Statements (SLFRSs)	142,369,158
Carrying Value as per Regulatory Reporting	140,729,711
Change in Value (a) +(b)	1,639,446

(a) Loan Loss Provisioning

The Bank recognises impairment provisions for loans and advances in accordance with SLFRS 9 - Financial Instruments, whereas provisions of the Banking Act directions for Classification of Loans and Advances, income recognition and provisioning are applied for regulatory reporting purposes.

As at 31st December 2021	Rs 000
Loan Loss Provisions as per Published Financial Statements (SLFRSs)	(8,314,868)
Corresponding Provisions as per Regulatory Reporting	(10,320,314)
Change in Value	2,005,447

(b) Fair Value Adjustment on Staff Loans at Concessionary Rates

SLFRSs require staff loans granted at concessionary rates to be measured at market interest rates to ascertain the fair value. The difference adjusted to the carrying amount of staff loans.

As at 31st December 2021	Rs 000
Staff Loans as per Published Financial Statements (SLFRSs)	863,728
Staff Loans as per Regulatory Reporting	1,229,728
Change in Value	(366,000)

(ii) Debt and Other Instruments

The Bank recognises impairment provisions for the investments in Debt & other Instruments in accordance with SLFRS 9 - Financial Instruments. In accordance with the Standard, impairment provision has been allocated for the investment in Sovereign Bonds and Sri Lanka Development Bonds

As at 31st December 2021	Rs 000
Debt and Other Instruments	
Carrying Value as per Published Financial Statements (SLFRSs)	34,410,624
Carrying Value as per Regulatory Reporting	35,498,802
Change in Value	(1,088,178)

Note 03 - Right-of-Use Asset

Assets hold under lease is recognised as Right -of -Use Assets under SLFRS 16

As at 31st December 2021	Rs 000
Right-of-Use Asset as per Published Financial Statements (SLFRSs)	1,377,407
Right-of-Use Asset as per Regulatory Reporting	-
Change in Value (a)+(b)	1,377,407

Note 04 - Other Assets

(a) Fair Value Adjustment on Staff Loans at Concessionary Rates

SLFRSs require staff loans granted at concessionary rates to be measured at fair value, based on the market interest rates prevailed at the time of granting the loan. The difference of Rs.366 million has recognised as a prepaid employee benefit and charged to income statement under 'personnel expenses', while interest income is accrued at the relevant market rates over the period of the loan.

(b) Unamortised Issuance Cost of Debt Securities

The remaining balance Rs.45.79 million of the unamortised issuance cost of the debt securities has been netted off with the financial liabilities in the Published Financial statements, where as in the regulatory reporting this has been presented under other assets.

(c) Prepaid Rent Expenses

The remaining balance Rs.66.66 million of the Prepaid Rent expenses has been net off with Right-of-Use Asset in Published Financial statements while this has been recognised under other assets in the regulatory reporting

As at 31st December 2021	Rs 000
Other Assets as per Published Financial Statements (SLFRSs)	1,733,053
Other Assets as per Regulatory Reporting	1,479,502
Change in Value (a)+(b)+(c)	253,550

Note 05 - Financial Liabilities at Amortised Cost

Due to Depositors

The Bank accrues interest expenses on longer maturity deposits at effective interest rates in the published financial statements whereas interest accrual in regulatory financial statements takes place on straight line basis.

As at 31st December 2021	Rs 000
Due to Depositors as per Published Financial Statements (SLFRSs)	146,433,817
Due to Depositors as per Regulatory Reporting	146,561,893
Change in Value	(128,076)

Note 06 - Other Liabilities

(a) Expected Credit Loss Adjustment on Financial Guarantees & Documentary Credit

Expected Credit Loss (ECL) adjustment on financial guarantees & documentary credit, issuing fee & commission income elimination adjustments of Rs.25.93 Mn relating to remaining contract periods on financial guarantees and documentary is included in the other liabilities reported in published financial statements.

(b) VAT Adjustment

Additional financial VAT liability of Rs. 292.79 Mn has created due to change in profits.

Basel III Pillar 3 Disclosures

(c) Impairment on Financial Guarantees & Documentary Credit

The Bank recognises impairment provisions for the financial guarantees & documentary credit in accordance with SLFRS 9 - Financial Instruments. Impairment provision of Rs. 44.78 Mn allocated for investment such instruments is included in the other liabilities

(d) Lease Liabilities

Rs. 1,366.44 Mn has recognised under other liabilities as the Corresponding liability for the Right- of- Use assets.

As at 31st December 2021	Rs 000
Other Liabilities as per Published Financial Statements (SLFRSs)	4,937,021
Other Liabilities as per Regulatory Reporting	3,207,083
Change in Value (a) +(b) +(c)+(d)	1,729,939

Note 07 - Current and Deferred Tax Liabilities/Assets

Current tax & Deferred liabilities have been re-stated with the above adjustments done in the published financial statements.

Note 08 - Shareholders Equity

Shareholder funds have been re-stated with the above adjustments done in the published Financial Statements.

Valuation Methodologies

A marked to market (MTM) valuation is performed mainly on assets prone for volatility. This applies mainly to the Held for Trading (HFT) portfolio since it is the portfolio most prone to market volatility & the same is maintained to benefit from market volatilities.

One such asset class is the Treasury bill and Treasury bond portfolio. Since these are government issued instruments that are risk free and have a very active secondary market. These instruments have two valuation methodologies which are Effective Interest Rate (EIR) method and straight line. However as regulated by the Central Bank of Sri Lanka, Banks are allowed only to report to the regulator using the EIR method & the same is adopted by the Bank for the calculation of the MTM. MTM of the portfolios are performed on a daily basis by Treasury Middle Office (TMO) and for the same the rates are obtained from Public Debt Department of Central Bank of Sri Lanka. As prudent measures, the Bank has enforced internal limits on stop losses.

Another asset class that MTM is performed is the equity trading portfolio of the Bank. The Bank do not trade heavily in the equity portfolio since the capital loss of the investment is of great concern to the Bank, therefore the equity valuations (if any) are performed on a monthly basis using the prices as appearing in the monthly publications of the Colombo Stock Exchange (CSE).

The trading unit trust portfolios valuation is similar to the equity calculation methodology and the frequency of valuation. However, since most of the unit trust instruments are not traded in an exchange, the net asset value or the market value is obtained through the relevant unit trust fund manager.

The foreign exchange position which should be within the limit as dictated by the regulator is valued in terms of Sri Lankan rupees on a daily basis by using exchange rates prevailing at the end of the day. Spot revaluation rates are mainly obtained from brokers.

Independent price verifications are done from different entities mainly from brokers. For forex spot rates, the Treasury Middle Office contacts a minimum of three brokers and averages are used. For cross currency transactions, Bloomberg rates are used twice a day. Treasury Bills and Treasury Bonds rates are obtained from Public Debt Department published information and a random sanity check is performed against broker rates.

Market Risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. It is managed under the market risk policies and processes to obtain the best balances of risk and return whilst meeting customer requirements.

The market risk subject to the capital charge requirements are:

- The Risk pertaining to Interest rate related instruments in the trading portfolios
- The Risk pertaining to the equities in the trading portfolios
- The Risk pertaining to the foreign exchange position.

The Bank follows the 'Standardized Measurement Method' for computing the capital charge for exposures capture under market risk.

Below table shows the RWA for market risk under Standardized Approach method:

Market Risk under Standardised Measurement Method

As at 31st December 2021	RWA Amount Rs 000
(a) RWA for Interest Rate Risk	-
General Interest Rate Risk	-
(i) Net Long or Short Position	-
(ii) Horizontal Disallowance	-
(iii) Vertical Disallowance	-
(iv) Options	-
Specific Interest Rate Risk	-
(b) RWA for Equity	-
(i) General Equity Risk	-
(ii) Specific Equity Risk	-
(c) RWA for Foreign Exchange & Gold	21,691
Risk Weighted Amount for Market Risk ((a+b+c) * Reciprocal of Total Capital Ratio)	180,758

Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustments/movements within a specified period. The Bank's lending, funding and investment activities give rise to interest rate risk. The Bank prepares Sensitivity of Assets & Liabilities (SAL) gap analysis report by contractual and behavioural maturities as broken by tenors up to 1 month, 1 - 3 months, 3 - 6 months, 6 - 12 months, 1 - 3 years, 3 - 5 years and over 5 years that covers both on and off-balance sheet interest rate sensitive assets and liabilities by currency-wise (according to CBSL guidelines) on a monthly basis.

Further Explanation on Bank approach to manage interest rate risk can be found in Pages 216 and 217 of Annual Report 2021- Interest Rate Sensitivity analysis of the Assets & Liabilities.

Equity Position Risk

Equity Price Risk is the risk to earnings or capital that results from adverse changes in the value of equity related portfolios of a financial institution.

Investment in equities is always classified under 'Trading' portfolio and is marked to market on a monthly basis. The net MTM adjustment (decline or appreciation of market value) of the portfolio is to be taken to the Profit & Loss account (reflected in earnings).

Basel III Pillar 3 Disclosures

Foreign Exchange Risk

The Bank faces foreign exchange risk due to impact on foreign currency inflow and outflow on daily basis. However, currency risk that can be carried through overnight is contained by the regulator through Net Open Position (NOP) limit. With the developments in emerging markets and increasing demand for US Dollar from importers, the Sri Lankan Rupee is further set to depreciate in the long term. The Bank generally manages this risk by using a derivative type called 'currency swaps'.

Liquidity Risk

The ability for a Bank to meet its short term liability requirements primarily to honor the premature upliftment and general maturities is defined as the liquidity risk. The Statutory Liquidity Asset Ratio, Liquidity Coverage and Net Stable Funding Ratio are the primary ratio gauges as imposed by the regulator in to the liquidity position of the Bank while other ratios such as the liquid assets to short term liabilities, commitments to liquid assets can be used to monitor the same.

Trends in Key Indicators

	2021	2020
Net Loans to Total Assets	75.12%	69.60%
Loans to Customer Deposits	105.72%	94.73%
Liquid Assets to Short-term Liabilities (Times)	8.35	12.55
Commitments to Liquid Assets	45.51%	32.35%

Another main measurement tool available for monitoring the liquidity of the Bank is the maturity gaps of assets and liabilities (MAL) which is prepared based on contractual and behavioral maturities bucket which are defined for up to 1 month, 1 - 3 months, 3 - 6 months, 6 - 12 months, 1 - 3 years, 3 - 5 years and over 5 years which covers both on and off-balance sheet assets and liabilities.

Further Explanation on Bank approach to manage liquidity risk can be found Pages 212 to 214 of Annual Report 2021-Contractual maturities of on & off balance sheet assets & liabilities.

Liquidity Risk Mitigation Techniques

The Bank has a contingency funding plan inter alia the roles and responsibilities of senior management in a crisis situation, triggers for invoking the plan, communications and organisation, an analysis of a realistic range of market-wide and specific liquidity stress tests to the extent to which each stress test can be mitigated by managing the balance sheet.

This is detailed in the Bank's Treasury Procedure Manual. In addition, the Bank has entered in to a reciprocal contingency funding arrangement with another licensed commercial bank for an amount of Rs.1.5 Billion.

Assessing the structure of the Balance Sheet

The main measurement tool the Bank uses to assess the structure of the balance sheet is Ratio Analysis. Comprehensive list of ratios according to the focus areas are as follows,

Growth Ratios:

Average Customer Assets growth, Average Liabilities growth, Average Low Cost Customer Deposit Growth

Other Ratios:

Loans to Deposit Ratio, Earning Assets/ Total Assets, NPA Ratio –Gross and Net NPA Ratio, Net Loans to Total Assets etc.

Concentration limits, sources of Funding & Liquidity Exposures

The Bank on a monthly basis uses top 20 deposit holder's concentration which is discussed at ALCO.

In order to manage the concentration risk the Bank has implemented various limits and restrictions on its funding portfolio. One such limitation is on the borrowing from the money market and currency wise (mainly USD & Sri Lankan Rupee) Board approved limits are in place and are reviewed at least annually and ensure the concentration risk arising from the same is mitigated according to the risk appetite of the Bank.

By analysing the past trends, it has been deduced that the Bank relies mainly on the time deposits in order to fund the business growth as evident in the below table where the product wise concentration of the liability portfolio is listed.

Product wise concentration of the Bank's Deposit portfolio as at 31st December 2021;

Deposit Product	Mix
Demand Deposits	5%
Savings Deposits	25%
Time Deposits	68%
Certificate of Deposits	2%
Margin Deposits	0%
	100%

The Top 20 deposit holders of the Bank has a share of 11.88% out of the total deposit base of the Bank as at the year end.

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) ensures Banks maintaining sufficient unencumbered High Quality Liquid Assets (HQLA) to survive a significant liquidity stress scenario over 30 days horizon. The Central Bank of Sri Lanka issued Banking Act Direction No. 01 of 2015 on "Liquidity Coverage Ratio under Basel III Liquidity Standards for Licensed Commercial Banks" on 31st March 2015.

Commencing from 01st April 2015, the Bank has to maintain LCR Ratio for all currencies and for rupee as stipulated in the direction. The minimum ratio requirement is 100%.

Liquid assets are distributed across the Bank to support regulatory and internal requirements and are consistent with the distribution of liquidity needs by currency. The composition of the high quality liquid asset portfolio has remained relatively stable over the reporting period and the previous period. The Bank maintained LCR for both Rupee and all currencies well above the minimum requirement during year 2021.

Basel III Pillar 3 Disclosures

LCR Disclosure template

The Bank monitors its LCR position on a daily basis, ensuring a sufficient buffer is maintained over the minimum regulatory requirement and the Bank's risk appetite. The Bank holds a diverse mix of High Quality Liquid Assets (HQLA), consisting primarily of cash, excess balances held with Central Bank above Statutory Reserve, Government of Sri Lanka securities (Level 1 Liquid Assets). In addition, the Bank maintains level 2 Liquid Assets such as gilt edge investments.

As at 31st December (All Currency)	2021		2020	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
	Rs 000	Rs 000	Rs 000	Rs 000
Total Stock of High-Quality Liquid Assets (HQLA)	27,572,730	26,861,466	36,465,187	35,652,169
Total Adjusted Level 1 Assets	22,830,974	22,871,149	30,112,052	30,112,052
Level 1 Assets	22,830,974	22,830,974	30,252,004	30,252,004
Total Adjusted Level 2A Assets	4,741,756	4,030,492	6,353,135	5,400,165
Level 2A Assets	4,741,756	4,030,492	6,353,135	5,400,165
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	165,009,135	24,399,584	157,505,009	20,530,867
Deposits	124,027,943	11,211,737	121,646,939	10,827,541
Unsecured Wholesale Funding	19,665,988	13,069,058	15,122,034	9,477,884
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	21,315,204	118,790	20,652,276	141,682
Additional Requirements	-	-	83,759	83,759
Total Cash Inflows	12,250,155	6,104,813	7,484,691	3,679,417
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	11,745,203	6,012,451	7,230,484	3,679,417
Operational Deposits	504,952	-	254,208	-
Other Cash Inflows	-	92,362	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total net Cash Outflows over the Next 30 Calendar Days) *100		146.83%		211.57%

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to 100% . "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the Net Stable Funding Ratio, which extends to one year.

The Central Bank has issued Direction No 08 of 2018 on "Net Stable Funding Ratio under Basel III liquidity Standards for Licensed Commercial Banks and Licensed Specialised Banks" on 21st November 2018. The minimum ratio requirement is 100%.

As at	31.12.2021	31.12.2020
	Rs 000	Rs 000
Total Available Stable Funding	151,791,247	144,105,747
Required Stable Funding – On Balance Sheet Assets	119,693,682	123,240,780
Required Stable Funding – Off Balance Sheet Items	105,113	132,673
Total Required Stable Funding	119,798,796	123,373,453
NSFR	126.71%	116.80%

Available Stable Funding

Available Stable Funding (ASF) is defined as the portion of capital and liabilities expected to be reliable over the time horizon of one year. ASF factors such as 100%, 90%, 50% & 0% assigned according to presumed degree of stability of funding.

Required Stable Funding

Required Stable Funding (RSF) is a function of liquidity characteristics and residual maturities of various assets held and those of its off-balance sheet (OBS) exposures. RSF factors such as 0%, 5%, 10%, 15%, 50%, 65%, 85% and 100% are assigned to different asset categories accordingly.

Operational Risk

Operational risk is the potential for loss arising from the failure of people, processes or technology or the impact of external events. Operational risk exposures are managed through a set of processes that drive risk identification, assessment, control and monitoring. The senior management team under the guidance of the Board is responsible for overseeing potential risk across the Bank.

The Bank computes capital charges for operational risk based on the Basic Indicator Approach (BIA). When compared to other approaches, BIA is not an advanced approach. Therefore, the Bank is in the process of collecting information to move to 'The Standardized Approach (TSA)' with the prior approval of CBSL.

Capital Requirement under BIA is given below;

Basel III Pillar 3 Disclosures

Operational Risk under Basic Indicator Approach

As at 31st December 2021 Business Lines	Capital Charge Factor	Fixed Factor	Gross Income 1st Year Rs 000	 2nd Year Rs 000	 3rd Year Rs 000
The Basic Indicator Approach	15%	-	11,908,674	9,360,192	9,065,086
The Standardised Approach					
Corporate Finance	18%	-	-	-	-
Trading and Sales	18%	-	-	-	-
Payment and Settlement	18%	-	-	-	-
Agency Services	15%	-	-	-	-
Asset Management	12%	-	-	-	-
Retail Brokerage	12%	-	-	-	-
Retail Banking	12%	-	-	-	-
Commercial Banking	15%	-	-	-	-
The Alternative Standardised Approach					
Corporate Finance	18%	-	-	-	-
Trading and Sales	18%	-	-	-	-
Payment and Settlement	18%	-	-	-	-
Agency Services	15%	-	-	-	-
Asset Management	12%	-	-	-	-
Retail Brokerage	12%	-	-	-	-
Retail Banking	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-
Capital Charges for Operational Risk (LKR'000)					
The Basic Indicator Approach					1,516,698
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach					12,133,581

Operational Risk Mitigation Techniques

The Bank's senior management team under delegation from the Board is responsible for overseeing operational risks across the Bank. The Bank has a process in place to record operational risk related loss incidents. Reporting, investigating and required remedial actions on the incidents are recommended by Manager - Operational and Integrated Risk and Risk Control Self Assessments along with Key Risk Indicators have been developed for all critical business units to trigger periodic risk control self assessments as required and to capture results to monitor exceptions. The Bank has established mechanisms in controlling, preventing, and mitigating operational risks through an effective internal control system with strong participation of each business unit heads.

Each business unit must enforce operational controls vigorously, ensuring compliance with regulations including anti-money laundering measures. Implementing segregation of duties and procedures for verification and reconciliation, define approval authorities as well as establishing limits commensurate with the scale of the business, the business type and level of staff, are also been looked after by them. The reliability of the information technology systems and the security measures related thereto is also of paramount importance.

The Bank has implemented Business Continuity Management to enhance the resilience and the capability of responding to unexpected interruptions. The Bank has Business Continuity Management Policy and Business Continuity Plans, which are regularly reviewed and updated in accordance with potential threats and being tested on a regular basis. Disaster Management Team (DMT) which comprise with members of all critical business operations is overlooking to ensure the readiness of the Bank's Disaster Recovery site and the related testing.

As a part of the risk management approach the Bank uses insurance as a 'risk transferring strategy' for low probability and high severity impact events that are beyond the control of the Bank such as damage to physical assets by natural disasters, fire etc. The Bank has also transferred such Risk by obtaining necessary insurance policies from leading insurance providers covering burglary, transits, forged cheques and securities, counterfeit currencies, infidelity and negligence of employees etc. The adequacy of the insurance covers are reviewed and monitored by relevant departments in the Bank on an ongoing basis.

Major operational, system or human failures and financial losses incurred by the Bank due to such failures during the reporting period

During the reporting period there were no significant losses reported due to failures or inadequacies in Internal Processes, People, and System or from External events.

Further details on Bank's approach to manage operational risk can be found on page 218 of the Annual Report 2021- Risk Management Report.

Details of Outsourced Activities

The Bank outsources certain service activities related to the financial services and core banking activities. With the outsourcing, the Bank would be in a better position to meet the challenges of rapid changes and innovations in technology, increasing specialisation in the market, cost control of operations by minimising costs of directly handling such activities, and effectively compete in the market. The outsourcing activities are governed by the laws applicable to the Banking industry and directions issued by the regulator. Further, the Bank has a well defined policy aligned with regulatory guidelines and procedures relating to outsourcing of business activities of the Bank ensuring that all significant risks arising from outsourcing arrangements of the Bank are identified and effectively managed on a continuous basis. The Outsourcing Policy is reviewed on an annual basis with the approval of the Board of Directors.

An Outsourced Activities Monitoring Unit has been established to closely monitor all the outsourcing arrangements in the Bank.

List of Outsourced Activities outsourced are as follows;

Deliverables/Services	Basis of the Payment
Cards Personalisation	Per Card
Credit Card Mandate Scanning	Per Document
World Master Card Personalisation	Per Card
Statement printing and dispatching	Per Statement
Debt collection, Skip tracing, Asset verification	Based on the output volumes
Mandates relating to accounts opening to be scanned	Per document
All cash sorting and transport	Cash Transport - Per agreed rate according to the distance Cash Counting - Per bundle
Cheque book printing	Per Cheque leaf
Archival of Documents	Per Carton
Computer Hardware and equipment	Monthly rental
Maintenance of Bank Disaster Recovery Site	Monthly Rental
Hiring IT Operators	Monthly Fee
Processing Salary and benefits	Monthly Fee
Promotional Activities	Per Activity
Recruitment and Processing payments for outsourced staff	Percentage on Total Salary Cost
Initial screening of applications for credit card and personal loans	Per Application
Card Management System	Per Card

Basel III Pillar 3 Disclosures

Details of the due diligence test of third party service providers

Due diligence tests of outsourced vendors are carried out by respective Risk Owners prior to executing new agreements and renewal of existing agreements. Assistance of Information Security Officer and Information Systems Audit Unit is obtained when conducting due diligence tests of outsourced parties which provide IT services.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB arises due to floating and fixed rate sensitive assets & liabilities in the balance sheet of the Bank. It is different to credit risk and relates to the impact interest rates change may have on the value of the loans and deposits and by extension, the overall earnings of the Bank. IRRBB arises due to the differences in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL), which will have an impact on the future income and expenses produced by relevant gap positions and an impact on Banks Net Interest Income compared to the level of Net Interest Income expected from current interest rates level. Re-pricing gap analysis would determine the appropriate strategies to manage the assets- liability rate mismatch.

Further Explanation on Bank approach to manage interest rate risk can be found in pages 216 to 217 of Annual Report 2021- Interest Rate Sensitivity analysis of the Assets & Liabilities.

Quarterly Statistics

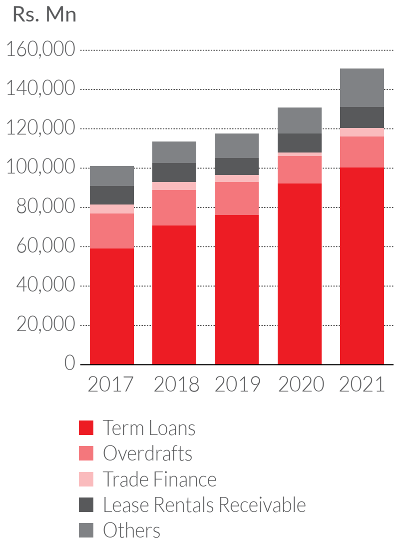
	2021				2020			
	31st December Rs 000	30th September Rs 000	30th June Rs 000	31st March Rs 000	31st December Rs 000	30th September Rs 000	30th June Rs 000	31st March Rs 000
Extract of Statement of Financial Position								
Total Assets	189,511,670	188,973,658	187,405,226	180,741,940	176,940,408	173,130,260	163,711,982	168,428,098
Loans and Advances	142,369,157	134,948,815	129,737,920	126,494,909	123,157,187	120,981,433	118,599,605	117,393,682
Due to Depositors	146,433,816	149,049,524	146,897,970	142,382,339	141,079,707	137,604,474	131,230,634	129,513,876
Debentures	872,839	843,904	871,896	843,275	872,839	843,904	-	-
Shareholders' Funds	18,553,508	17,455,792	16,803,968	16,189,316	15,397,169	14,606,121	14,234,742	13,744,478
Extract of Statement of Comprehensive Income								
Net Interest Income	2,972,934	2,303,573	2,131,114	2,234,115	1,926,349	1,702,910	1,830,493	1,909,996
Other Income	670,021	503,274	372,488	721,154	540,138	523,490	405,279	521,534
Total Operating Income	3,642,955	2,806,847	2,503,602	2,955,269	2,466,487	2,226,400	2,235,772	2,431,530
Impairment Losses	(933,655)	(567,150)	(231,798)	(637,850)	(367,214)	(553,526)	(146,494)	(528,809)
Non-Interest Expenses	(1,394,084)	(1,343,614)	(1,435,224)	(1,331,645)	(1,125,953)	(1,240,851)	(1,308,314)	(1,250,864)
Income Tax Expense	(247,485)	(244,260)	(231,218)	(235,332)	(175,488)	(87,642)	(290,701)	(236,168)
Profit for the Quarter	1,067,731	651,823	605,362	750,442	797,832	344,381	490,263	415,689
Profitability(YTD) Ratios								
Net Interest Margin (%)	5.18	4.81	4.84	5.07	4.41	4.42	4.65	4.78
Earnings Per Share (Rs.)	6.95	4.54	3.06	1.70	4.63	2.83	2.05	0.94
Return on Equity (%)	18.03	16.13	16.95	19.27	14.36	11.95	13.23	12.35
Return on Assets (%)	1.65	1.45	1.50	1.70	1.23	1.01	1.13	1.04
Capital Adequacy Ratios*								
Common Equity Tier I Capital Ratio (%)	13.82	12.36	12.59	12.83	13.24	12.82	11.78	11.71
Total Tier I Capital Ratio (%)	13.82	12.36	12.59	12.83	13.24	12.82	11.78	11.71
Total Capital Ratio (%)	15.97	14.63	15.01	15.28	15.74	15.11	13.35	13.25
Asset Quality Ratios								
Gross NPA (%)	6.48	6.06	6.61	6.77	6.73	6.38	5.89	6.03
Net NPA (%)	0.18	1.28	1.94	2.18	2.34	2.20	1.84	2.27
Liquidity Ratios								
Statutory Liquid Assets Ratio (SLAR)								
Domestic Banking Unit (%)	24.18	28.76	31.00	28.96	27.83	29.65	27.79	26.16
Foreign Currency Banking Unit (%)	58.42	50.25	50.37	50.25	42.36	38.73	32.01	24.84
Liquidity Coverage Ratio (LCR)								
Rupee (%)	135.47	180.01	229.81	173.30	177.36	173.84	135.22	104.09
All Currency (%)	146.83	207.38	268.04	203.95	211.57	205.07	208.15	129.45

Analysis of Loans and Advances

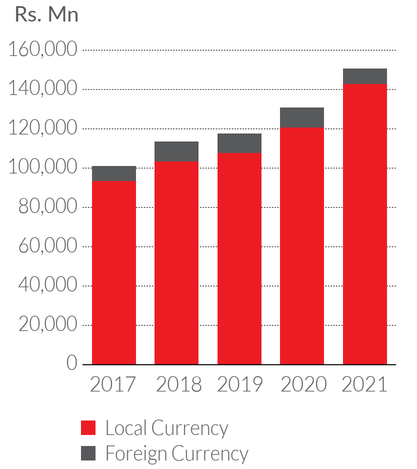
	2021 Rs 000	2020 Rs 000	2019 Rs 000	2018 Rs 000	2017 Rs 000
By Product					
Term Loans	100,358,520	92,181,667	76,045,575	70,870,588	59,136,152
Overdrafts	15,611,229	13,866,114	16,787,688	17,936,818	17,703,444
Trade Finance	4,570,341	2,007,923	3,664,711	4,036,976	4,546,528
Lease Rentals Receivable	10,475,359	9,496,585	8,627,202	9,804,133	9,449,637
Others	19,668,575	13,199,489	12,378,000	10,845,909	10,119,619
Total	150,684,024	130,751,778	117,503,176	113,494,424	100,955,380
By Currency					
Sri Lankan Rupee	142,806,129	120,579,129	107,565,116	103,345,693	93,485,484
United States Dollar	4,912,500	3,789,295	3,904,780	3,917,082	3,424,961
Others	2,965,395	6,383,354	6,033,280	6,231,649	4,044,935
Total	150,684,024	130,751,778	117,503,176	113,494,424	100,955,380

Note: Financial data of previous years have been re-classified/re-stated to conform with SLFRS 9 requirements.

By Product



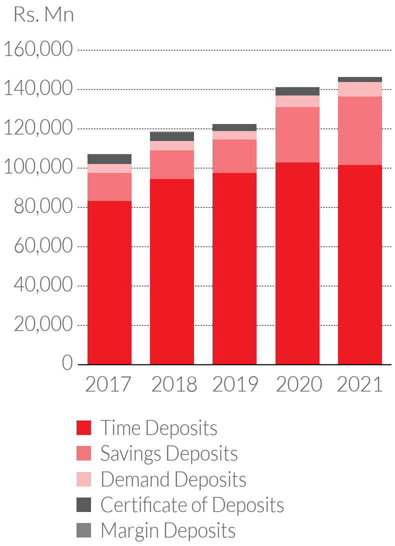
By Currency



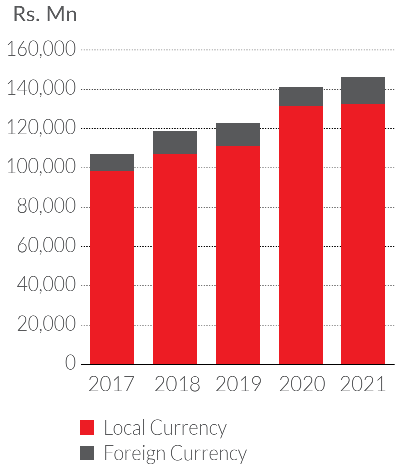
Analysis of Due to Depositors

	2021 Rs 000	2020 Rs 000	2019 Rs 000	2018 Rs 000	2017 Rs 000
By Product					
Demand Deposits	7,354,603	5,847,739	4,375,636	4,871,475	4,815,485
Savings Deposits	34,905,340	28,339,136	16,910,775	14,404,715	14,159,616
Time Deposits	101,519,268	102,766,776	97,528,927	94,475,049	83,200,483
Certificate of Deposits	2,408,089	3,825,672	3,521,230	4,359,723	4,603,819
Margin Deposits	246,516	300,384	207,456	516,387	413,627
Total	146,433,816	141,079,707	122,544,024	118,627,349	107,193,030
By Currency					
Sri Lankan Rupee	132,441,635	131,388,842	111,342,539	107,090,457	98,574,959
United States Dollar	10,636,528	7,789,043	8,940,128	9,369,827	6,730,046
Others	3,355,653	1,901,822	2,261,357	2,167,065	1,888,025
Total	146,433,816	141,079,707	122,544,024	118,627,349	107,193,030

By Product



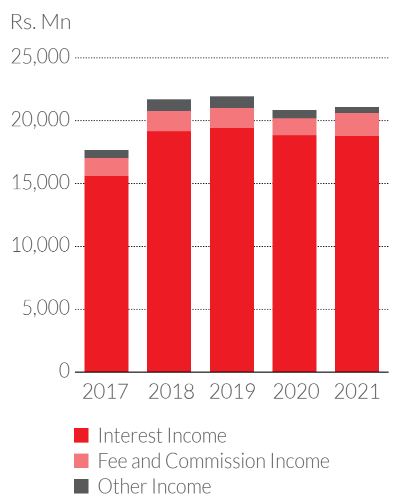
By Currency



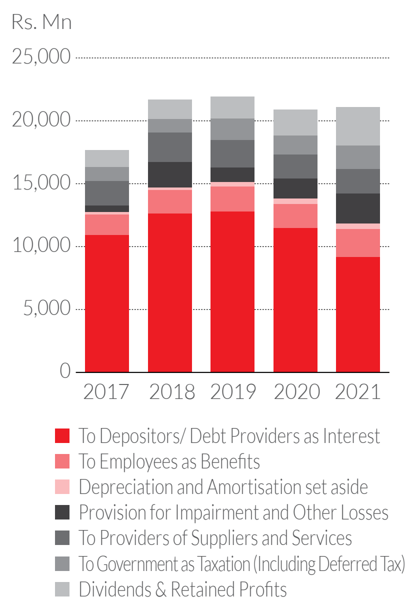
Sources & Distribution of Income

	2021 Rs 000	2020 Rs 000	2019 Rs 000	2018 Rs 000	2017 Rs 000
Sources of Income					
Interest Income	18,798,301	18,821,013	19,416,606	19,157,136	15,616,014
Fee and Commission Income	1,821,228	1,346,033	1,605,877	1,626,410	1,408,276
Trading and Other Operating Income	484,005	714,379	885,179	888,648	660,382
Total	21,103,534	20,881,425	21,907,662	21,672,194	17,684,672
Distribution of Income					
To Depositors and Debt Providers as Interest	9,156,565	11,451,264	12,782,017	12,638,841	10,909,740
To Employees as Benefits	2,225,204	1,942,765	1,973,310	1,863,074	1,624,035
Depreciation and Amortisation set aside	459,840	416,618	387,704	193,811	213,491
Provision for Impairment Losses	2,370,452	1,596,041	1,136,843	2,017,147	494,386
To Providers of Supplies and Services	1,949,180	1,925,847	2,207,426	2,343,093	1,977,041
To Government as Taxation	1,866,936	1,500,721	1,669,793	1,074,585	1,075,477
Income Tax (Including Deffered Tax)	958,295	789,998	563,570	368,014	484,954
VAT on Financial Services	877,577	690,035	1,088,540	690,999	576,478
Crop Insurance Levy	31,064	20,689	17,683	15,572	14,045
To Shareholders as Dividends & Retained Profits	3,075,358	2,048,168	1,750,569	1,541,643	1,390,502
Total	21,103,534	20,881,425	21,907,662	21,672,194	17,684,672

Source of Income

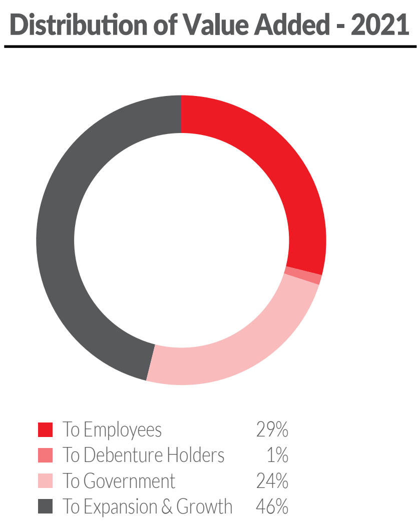


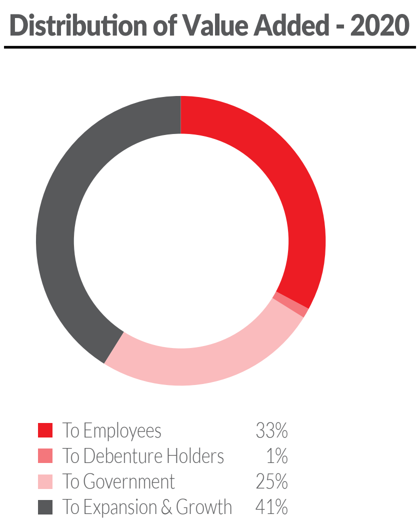
Distribution of Income



Value Added Statement

	2021 Rs 000	%	2020 Rs 000	%
Value Added				
Income from Banking Services	21,103,533		20,881,424	
Cost of Funds and Services	(10,990,943)		(13,324,272)	
Value Added by Banking Services	10,112,590		7,557,152	
Impairment Losses	(2,370,452)		(1,596,042)	
Total	7,742,138		5,961,111	
Distribution of Value Added				
To Employees				
Salaries and Other Benefits	2,225,204	29%	1,942,765	33%
To Debenture Holders				
Interest to Debenture Holders	114,800	1%	52,839	1%
To Government				
Income Tax (Including Deferred Tax)	958,295		789,998	
VAT on Financial Services	877,577		690,034	
Crop Insurance levy	30,625		20,689	
	1,866,497	24%	1,500,721	25%
To Expansion and Growth				
Retained Profits	3,075,358		2,048,168	
Depreciation and Amortisation	459,840		416,617	
	3,535,198	46%	2,464,785	41%
Total	7,741,698	100%	5,961,111	100%





Decade at a Glance

Rs. Mn

For the Year ended 31st December	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Operating Results										
Income	7,766.22	9,054.03	8,843.95	10,759.14	15,144.75	17,684.67	21,672.19	21,907.66	20,881.42	**21,103.53**
Interest Income	6,766.83	7,976.95	7,541.72	9,038.97	13,366.55	15,616.01	19,157.13	19,416.61	18,821.01	**18,798.30**
Interest Expense	4,360.68	5,881.65	4,801.74	5,076.38	8,733.16	10,909.74	12,638.84	12,782.02	11,451.26	**9,156.56**
Net Interest Income	2,406.15	2,095.30	2,739.98	3,962.59	4,633.39	4,706.27	6,518.29	6,634.59	7,369.75	**9,641.74**
Other Income	999.39	1,077.08	1,302.23	1,720.17	1,778.20	2,068.66	2,515.06	2,491.06	2,060.41	**2,305.23**
Operating Expenses	2,002.94	2,201.84	2,477.07	3,038.74	3,605.27	3,828.61	4,415.55	4,586.12	4,305.92	**4,665.29**
Impairment Charges	47.88	743.26	814.85	750.53	528.11	494.39	2,017.15	1,136.84	1,596.04	**2,370.45**
Taxes and Levies on Financial Services	209.31	104.53	216.08	361.87	483.27	576.48	691.00	1,088.54	690.03	**877.58**
Profit before Income Tax	1,145.41	122.75	534.21	1,531.62	1,794.94	1,875.45	1,909.65	2,314.14	2,838.17	**4,033.65**
Income tax	285.36	8.91	119.00	491.10	543.23	484.95	368.01	563.57	790.00	**958.29**
Profit for the Year	860.05	113.84	415.21	1,040.52	1,251.71	1,390.50	1,541.64	1,750.57	2,048.17	**3,075.36**
As at 31st December										
Assets										
Cash and Cash Equivalents	1,203.05	1,203.74	1,334.41	1,393.27	1,703.45	1,665.04	2,214.11	1,708.27	2,914.16	**2,218.09**
Balances with Central Bank of Sri Lanka	3,516.87	2,799.58	3,247.64	4,166.74	6,218.56	6,884.02	6,481.99	5,333.20	10,304.35	**5,038.35**
Placements with Banks	500.13	104.62	-	-	75.10	237.37	-	-	-	**-**
Derivative Financial Instruments	0.05	2.76	5.21	1.54	26.28	16.09	0.21	0.44	93.01	**4.59**
Financial Assets - Measured at Fair Value	12.38	9,170.42	1,414.70	14.71	629.74	4,549.19	11.63	168.18	-	**-**
Loans and Advances	42,031.80	41,561.53	52,974.81	75,143.20	86,498.15	98,743.82	108,168.86	111,187.86	123,157.19	**142,369.15**
Reverse Repurchase Agreements & Debt and Other Instruments	6,077.62	6,028.64	17,532.44	24,654.44	31,843.17	23,336.40	34,074.56	30,080.09	35,798.94	**34,110.58**
Financial Assets - Fair Value through Other Comprehensive Income	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	**3.75**
Property, Plant and Equipment	1,224.24	1,204.30	1,458.55	1,470.35	1,489.39	1,989.97	1,934.57	2,333.96	2,307.88	**2,335.83**
Right of Use Asset	-	-	-	-	-	-	-	911.84	983.37	**1,377.41**
Intangible Assets	73.58	65.80	50.61	329.13	315.70	284.39	305.08	280.85	346.70	**320.86**
Deferred Tax Asset	-	-	-	-	-	-	4.93	-	-	**-**
Other Assets	1,428.41	2,770.90	1,580.74	603.43	645.38	789.24	824.18	968.86	1,028.66	**1,733.06**
Total Assets	56,074.29	64,918.45	79,605.27	107,782.97	129,451.08	138,501.69	154,026.28	152,979.70	176,940.41	**189,511.67**
Liabilities										
Due to Banks, Repurchase Agreements & Debt Securities Issued	1,121.65	4,743.51	4,294.47	14,612.56	21,001.34	10,963.69	15,039.81	12,466.68	14,399.17	**17,147.04**
Derivative Financial Instruments	0.63	24.63	-	2.14	-	7.37	0.11	0.11	79.01	**0.03**
Due to Depositors	47,911.09	53,835.90	64,895.23	77,697.05	91,456.41	107,193.03	118,627.35	122,544.02	141,079.71	**146,433.82**
Current Tax Liabilities	151.31	-	-	114.94	411.03	550.34	785.74	752.29	825.10	**1,252.82**
Deferred Tax Liabilities	177.13	150.79	281.98	391.74	445.77	630.73	-	132.78	159.83	**118.40**
Other Liabilities and Provisions	1,694.06	1,330.16	1,564.01	1,276.69	1,314.21	1,339.59	2,517.44	3,755.03	4,127.58	**5,133.22**
Debentures	785.83	784.69	3,834.95	7,914.58	7,950.17	7,147.05	5,809.19	-	872.84	**872.84**
Total Liabilities	51,841.70	60,869.68	74,870.64	102,009.70	122,578.93	127,831.80	142,779.64	139,650.91	161,543.24	**170,958.16**
Shareholders' Funds										
Stated Capital	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	3,614.25	3,614.25	3,614.25	3,614.25	**3,614.25**
Reserves	2,683.62	2,499.80	3,185.66	4,224.30	5,323.18	7,055.64	7,632.39	9,714.54	11,782.92	**14,939.26**
Total Shareholders' Funds	4,232.59	4,048.77	4,734.63	5,773.27	6,872.15	10,669.89	11,246.64	13,328.79	15,397.17	**18,553.51**
Total Liabilities and Shareholders' Funds	56,074.29	64,918.45	79,605.27	107,782.97	129,451.08	138,501.69	154,026.28	152,979.70	176,940.41	**189,511.67**
Commitments and Contingencies	13,743.92	26,124.67	22,200.09	26,223.21	25,458.17	32,426.39	44,169.94	46,999.03	67,728.48	**37,779.89**
Share Information										
Earnings per Share (Rs.)	2.92	0.39	1.41	3.53	4.01	3.31	3.48	3.96	4.63	**6.95**
Net Assets Value per Share (Rs.)	9.56	9.15	10.70	13.05	15.53	24.11	25.41	30.12	34.79	**41.92**
Other Information										
No of Employees	1,153	1,169	1,302	1,420	1,458	1,472	1,497	1629	1483	**1396**
No of Branches	73	77	78	79	82	85	85	85	85	**85**

Notes

1. Net Assets Value per Share has been calculated, for all periods, based on the number of shares in issue as at 31st December 2020

2.Financial data of previous years have been re-classified / re-stated to conform with SLFRS 9 requirements.

Investor Relations

Compliance Report on the Contents of Annual Report in terms of the Listing Rules of the Colombo Stock Exchange

The table below summarises the Bank's degree of compliance with the Listing Rules issued by Colombo Stock Exchange;

Rule No.	Disclosure Requirements	Section Reference	Page/s
7.6 (i)	Names of persons who during the Financial Year were Directors of the Entity.	Annual Report of Board of Directors on the Affairs of the Bank	121
7.6 (ii)	Principal activities of the entity during the year and any changes therein.	Notes to the Financial Statements (Note 1 - Corporate Information)	140
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	Item 02 of the Investor Relations	270
7.6 (iv)	Public Holding information and Market capitalisation; • The Public Holding percentage and Number of Shares held by Public • Market capitalisation • Float adjusted market capitalisation • The option of complying with the Minimum Public Holding requirement	 Item 02 of the Investor Relations Item 10 of the Investor Relations Item 02 of the Investor Relations Item 02 of the Investor Relations	 270 274 271 270
7.6 (v)	A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of Financial Year.	Annual Report of Board of Directors on the Affairs of the Bank	121
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Item 05 of the Investor Relations	274
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	Item 06 of the Investor Relations	274
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	Notes to the Financial Statements (Note 21.5) Item 11 of the Investor Relations	174 274
7.6 (ix)	Number of shares representing the Entity's Stated Capital.	Notes to the Financial Statements (Note 32)	186
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	272
7.6 (xi)	Ratios and Market Price information; • Equity Ratios • Market Price • Debenture Information • Credit Rating	 Item 04 of the Investor Relations Item 04 of the Investor Relations Not Applicable Corporate Information	 273 273 - IBC
7.6 (xii)	Significant changes in the Entity's Property, Plant and Equipment and the market value of land, if the value differs substantially from the book value.	Notes to the Financial Statements (Note 21)	172
7.6 (xiii)	Details of funds raised through public issues, Right Issues, and Private Placements during the year.	Not Applicable	-
7.6 (xiv)	Information in respect of Employee Share Option Scheme.	Not Applicable	-
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Section 7 of the Rules.	Exempted under section 7.10 of Listing Rules since the Bank complies with direction laid down in the Banking Act Direction No. 11 of 2007 on Corporate Governance	-
9.3.2.(a)	Disclosure of non recurrent Related Party Transactions.	Item No. 7 of Investor Relations	274
9.3.2.(b)	Disclosure of recurrent Related Party Transactions.	Item No. 8 of Investor Relations	274
9.3.2.(c)	Report of the Board Related Party Transactions Review Committee containing specified disclosures.	Board Related Party Transactions Review Committee	118
9.3.2.(d)	Declaration by the Board of Directors on Compliance with rules relating to Related Party Transactions.	Annual Report of the Board of Directors on Affairs of the Bank	121

Investor Relations

1. Stock Exchange Listing

The issued ordinary voting shares of Pan Asia Banking Corporation PLC are listed in the Colombo Stock Exchange.

Instrument	Type	Security Code
Voting Shares	Ordinary	PABC N0000

The Audited Statement of Financial Position as at 31st December 2021 and Audited Income statement for the year ended 31st December 2021 of the Bank will be submitted to the Colombo Stock Exchange within 3 months from the Statement of Financial Position date.

2. Names, Number and Percentage of Shares held by Twenty Largest Shareholders

As at 31st December 2021

No	Name of Shareholder	No. of Shares	%
1	K. D. D. Perera	132,724,230	29.99
2	Bansei Securities Co., Ltd.	66,384,246	15.00
3	Seylan Bank PLC/Ambeon Holdings PLC (Collateral)	37,573,158	8.49
4	W.K. H Wegapitiya	27,303,169	6.17
5	K. D. H. Perera	23,305,998	5.27
6	P. J. Tay	21,917,994	4.95
7	K. D. A. Perera	19,200,000	4.34
8	Sri Lanka Samurdhi Authority	11,114,376	2.51
9	Imminent Technologies (Pvt) Ltd	10,637,697	2.40
10	Sri Lanka Savings Bank Limited	10,298,499	2.33
11	D. C. C. Joseph	6,000,000	1.36
12	H. Beruwalage	2,046,648	0.46
13	R. A. De Silva	1,311,505	0.30
14	DFCC Bank PLC/N. G. N. Maduranga	1,269,679	0.29
15	D. M. I. Dissanayake	1,260,101	0.28
16	Commercial Bank of Ceylon PLC/Andaradeniya Estate (Pvt) Ltd	1,220,458	0.28
17	D. R. Ponnamperuma	1,200,000	0.27
18	D. T. Beruwalage	1,161,448	0.26
19	T. G. S. Wickrama	1,037,153	0.23
20	M. B. U. N. Fernando	1,020,000	0.23
	Sub Total	377,986,359	85.41
	Balance held by 6,354 Shareholders	64,575,270	14.59
	Total	442,561,629	100.00

As at 31st December 2020

No	Name of Shareholder	No. of Shares	%
1	K. D. D. Perera	132,724,230	29.99
2	Bansei Securities Co., Ltd.	66,384,246	15.00
3	Seylan Bank PLC/Ambeon Holdings PLC(Collateral)	43,930,641	9.93
4	W. K. H. Wegapitiya	27,303,169	6.17
5	K. D. H. Perera	23,305,998	5.27
6	P. J. Tay	21,917,994	4.95
7	K. D. A. Perera	19,200,000	4.34
8	D. C. C. Joseph	15,206,742	3.44
9	Imminent Technologies (Pvt) Ltd	14,137,697	3.19
10	Sri Lanka Samurdhi Authority	11,114,376	2.51
11	Sri Lanka Savings Bank Limited	10,298,499	2.33
12	R. A. De Silva	2,201,229	0.49
13	H. Beruwalage	2,046,648	0.46
14	Commercial Bank of Ceylon PLC/Andaradeniya Estate (Pvt) Ltd	1,422,462	0.32
15	D. M. I. Dissanayake	1,400,101	0.32
16	D. T. Beruwalage	1,161,448	0.26
17	M. B. U. N. Fernando	1,020,000	0.23
18	A. P. Somasiri	1,000,000	0.23
19	DFCC Bank PLC/N G N Maduranga	981,085	0.22
20	Little Smile Organic (Pvt) Ltd	826,017	0.19
	Sub Total	397,582,582	89.84
	Balance held by 4,892 Shareholders	44,979,047	10.16
	Total Number of Shares	442,561,629	100.00

As per the Rules No.7.6 (iv) of the Listing Rules of the CSE, Percentage of Public Holding as at 31st December 2021 was 54.93% in the hands of 6,370 public shareholders. (31st December 2020 - 54.96% in the hands of 4,905 shareholders).

Float Adjusted Market Capitalisation as at 31st December 2021 was Rs.3,768,036,093 /- (31st December 2020 - Rs.3,162,014,326/-) and Bank complies with Option No. 04.

Investor Relations

3. Distribution Schedule of the Number of Shareholders and Percentage of Shareholding

The total number of shareholders as at 31st December 2021 were 6,374 (31st December 2020 - 4,912).

Analysis 1

Range of Shareholding	Resident			Non- Resident			Total		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
1 - 100	1,282	47,389	0.01%	3	72	0.00%	1285	47,461	0.01%
101 - 1,000	2,055	1,062,412	0.24%	6	3,250	0.00%	2061	1,065,662	0.24%
1,001 - 5,000	1,546	4,172,918	0.94%	9	27,000	0.01%	1555	4,199,918	0.95%
5,001 - 10,000	497	3,872,926	0.88%	5	44,332	0.01%	502	3,917,258	0.89%
10,001 - 50,000	687	16,149,495	3.65%	9	241,360	0.05%	696	16,390,855	3.70%
50,001 - 100,000	129	9,550,721	2.16%	4	307,279	0.07%	133	9,858,000	2.23%
100,001 - 500,000	110	21,873,244	4.94%	2	215,000	0.05%	112	22,088,244	4.99%
500,001 - 1,000,000	10	7,007,872	1.58%	-	-	-	10	7,007,872	1.58%
1,000,001 and above	18	289,684,119	65.46%	2	88,302,240	19.95%	20	377,986,359	85.41%
Total	6,334	353,421,096	79.86%	40	89,140,533	20.14%	6,374	442,561,629	100.00%

Analysis 1.1

Range of Shareholding	2021			2020		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Resident Shareholders	6,334	353,421,096	79.86%	4,875	353,808,427	79.95%
Non Resident Shareholders	40	89,140,533	20.14%	37	88,753,202	20.05%
Total	6,374	442,561,629	100.00%	4,912	442,561,629	100.00%

Analysis 2

Range of Shareholding	Individual			Institutional			Total		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
1 - 100	1,273	47,041	0.01%	12	420	0.00%	1,285	47,461	0.01%
101 - 1,000	2,025	1,047,048	0.24%	36	18,614	0.00%	2,061	1,065,662	0.24%
1,001 - 5,000	1,513	4,035,616	0.91%	42	164,302	0.04%	1,555	4,199,918	0.95%
5,001 - 10,000	4,58	3,540,550	0.80%	44	376,708	0.09%	502	3,917,258	0.89%
10,001 - 50,000	6,19	14,179,313	3.20%	77	2,211,542	0.50%	696	16,390,855	3.70%
50,001 - 100,000	103	7,579,591	1.71%	30	2,278,409	0.51%	133	9,858,000	2.22%
100,001 - 500,000	79	15,385,819	3.48%	33	6,702,425	1.52%	112	22,088,244	5.00%
500,001 - 1,000,000	4	2,743,493	0.62%	6	4,264,379	0.96%	10	7,007,872	1.58%
1,000,001 and above	13	239,488,246	54.12%	7	138,498,113	31.29%	20	377,986,359	85.41%
Total	6,087	288,046,717	65.09%	287	154,514,912	34.91%	6,374	442,561,629	100.00%

Analysis 2.1

Range of Shareholding	2021			2020		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Individual Shareholders	6,087	288,046,717	65.09%	4,727	284,414,475	64.27%
Institutional Shareholders	287	154,514,912	34.91%	185	158,147,154	35.73%
Total	6,374	442,561,629	100.00%	4,912	442,561,629	100.00%

4. Information on Ratios and Market Prices

i) Ratios

Year	2021	2020
Dividend Per Share (Rs.)	-	-
Dividend Payout (%)	-	-
Net Asset Value per Share (Rs.)	41.92	34.79
Debt to Equity (Times)	0.75	0.74
Interest Cover (Times)	5.46	0.06
Statutory Liquid Asset Ratio (%)		
Domestic Banking Unit	24.18	27.83
Foreign Currency Banking Unit	58.42	42.36
Liquidity Coverage Ratio (%)		
Rupee	135.47	177.36
All Currency	146.83	211.57

ii) Market Price - Ordinary Shares

Year	2021	2020
	Rs.	Rs.
Highest	22.50	14.70
Lowest	13.00	6.10
Year End	15.50	13.00

Investor Relations

5. Material Foreseeable Risk Factors

Information pertaining to the material foreseeable risk factors that require disclosures as per the Rule 7.6(vi) of the Listing Rules of the Colombo Stock Exchange (CSE) are discussed in the Note 37 to the Financial Statements, Future Outlook in page 37, Responding to COVID-19 pandemic in page 69 and Risk Management Report on pages 70 to 76.

6. Material Issues Pertaining to Employees and Industrial Relations

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be discussed as per the Rule No. 7.6 (vii) of the Listing Rules of the CSE.

7. Non Recurrent Related Party Transactions

The aggregate value of total non recurrent Related Party Transactions entered into by the Bank during the year has not exceeded 10% of Equity or 5% of Total Assets of the Bank.

8. Recurrent Related Party Transactions

All Related Party Transactions entered by the Bank have been reviewed by the Board Related Party Transaction Review Committee during the year 2021. Such transactions were in usual commercial terms and in ordinary course of the business without favourable treatment to the Related Parties. Further those transactions were of trading nature or necessary for the day to day operation of the Bank. The aggregate value of recurrent Related Party Transactions (other than the exempted transactions) entered into by the Bank during the year has not exceeded 10% of the Gross Income of the Bank.

9. New Issues and Utilisation of Funds Raised via Share Issues in prior years

The Bank has not raised funds through public issues, rights issues and private placements during the year (2020-Nil).

10. Market Capitalisation

Market Capitalisation as at 31st December 2021 - Rs. 6,859,705,249/- (31st December 2020 - Rs. 5,753,301,177/-)

11. Number of buildings owned by the Bank

The Bank owns two buildings as at 31st December 2021 the details of which are disclosed in Note 21.5 to the Financial Statements.

Glossary of Financial & Banking Terms

A

Acceptance
Promise to pay created when the drawee of a time draft stamps or writes the words 'accepted' above his signature and a designated payment date.

Accounting Policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis
Recognising the effects of transactions and other events as and when they occur without waiting for receipt or payment of cash or cash equivalents.

Actuarial Gain or Loss
Gain or loss arising from difference in estimates and actual loss experience in a defined benefit obligation.

Additional Tier 1 Capital (AT1)
Additional Tier 1 is a component of Tier 1 capital that comprises of securities that are subordinated to most subordinated debt, which have no maturity and their dividends can be cancelled at any time.

Advances to Deposit Ratio (ADR)
Total Loans and Advances expressed as a percentage of total deposit portfolio of the Bank.

Amortisation
The systematic allocation of the depreciable amount of an intangible asset over its useful life time.

Amortised Cost
Amount at which the Financial Asset or Financial Liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

Assets and Liabilities Committee (ALCO)
A risk management committee in a Bank that generally comprises the senior management levels of the Bank. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, and external events that may affect the Bank's forecast and strategic balance sheet allocations.

B

BASEL III
The strengthened global regulatory framework on capital and liquidity issued by Basel committee on Bank Supervision.

Bills for Collection
A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

Bill of Exchange
A signed, written, unconditional order one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of the third person (the Payee). The terms bills of exchange and drafts are often used inter-exchangebly.

C

Call Deposits or Call Money
Deposits or funds lent out which are repayable on demand.

Capital Reserve
Reserves identified for specific purposes and considered not available for distribution.

Cash Equivalents
Short Term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective Impairment Provisions
Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date.

Commercial Paper
An unsecured, short-term debt instrument issued by a company, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commitments
Credit Facilities approved but not yet utilised by the clients at the end of the Reporting Period.

Common Equity Tier 1 Capital
Common Equity Tier 1 Capital representing permanent shareholder's equity and reserves created or increased by appropriation of retained earnings or other surpluses.

Contingencies
A condition or situation existing at the end of the Reporting Period where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contractual Maturity
Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest due to be paid.

Corporate Governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank
A Bank in a foreign country that offers banking facilities to the customers of a Bank in another country.

Cost-to-Income Ratio
A ratio expressing Bank's cost effectiveness which sets overhead expenses in relation to total operating income.

Credit Ratings
An evaluation of a corporate's ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

Glossary of Financial & Banking Terms

Credit Risk
Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Currency Swaps
The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Country Risk
The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

D

Deferred Tax
Sum set aside in the Financial Statements for taxation that may become payable in a financial year other than the current Financial Year.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition
Removal of a previously recognised financial assets or financial liability from an entity's Statement of Financial Position.

Derivatives
Financial contracts whose values are derived from the values of underline assets.

Documentary Credit (L/Cs)
Written undertakings by a Bank on behalf of its customers (typically an importer), favouring a third party (e.g. an exporter) where the third party could get paid up to a stipulated amount by fulfilling specific terms and conditions. Such undertakings are established for the purpose of facilitating trade.

E

Earnings per Share
Profit attributable to ordinary shareholders' divided by number of shares in issue during that period.

Effective Interest Rate
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the Financial Asset or Financial Liability.

Effective Tax Rate
Provision for taxation divided by the profit before taxation.

Equity Instruments
Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Events after the Reporting Period
Events after the Reporting Period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue.

Exposure
A claim, contingent claim or position which carries a risk of financial loss.

Exposure at Default (EAD)
The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Earnings Yield
Shows how much an investor earned compared to market price.

F

Fair Value
Fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Finance Lease
Lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

Financial Asset
Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Asset or Financial Liability at Fair Value through Profit or Loss
Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as at fair value through profit or loss.

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)
Financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial Guarantee Contract
A Financial Guarantee Contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial Instruments
Any contract that gives rise to a financial assets of one entity and financial liability or equity instrument of another entity.

Financial Liability
A contractual obligation to deliver cash or another financial asset to another entity.

Float Adjusted Market Capitalisation
Float adjusted market capitalisation is the market value of public shareholding of the listed entity.

Forborne Loans
The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy.

Forward Exchange Contract
Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

Forward Looking Information
Incorporation of macroeconomic scenarios into the impairment calculations.

G

General Provisions
General Provisions are established for all Loans and Advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis in accordance with the Regulatory directives.

Guarantees
Primarily represent irrevocable assurances that a Bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

H

Hedging
A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements.

Historical Cost Convention
Recording transactions at the actual value received or paid.

I

Incremental Borrowing Rate
The rate Bank uses to discount the future lease liabilities in recognition of Lease rentals and Right-of-Use assets.

Individually Significant Loans and Advances
Loans and Advances those are individually significant to the Bank and Impairment of which are measured individual/specific basis.

Impairment
This occurs when recoverable amount of an asset is less than its carrying amount.

Individual Impairment Provisions
Individual impairment provisions are provisions held in account of individually significant Loans and Advances.

Individually Impaired Asset Cover
Impaired Assets Cover is the ratio of Individual impairment provision to total individually impaired assets.

Intangible Asset
An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/ services or for rental to others or for administrative purposes.

Interest in Suspense
Interest due on Non Performing assets.

Interest Margin
Net interest income as a percentage of average total assets.

Interest Rate Risk
The risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

Interest Spread
Represents the difference between the average interest rate earned on interest earning assets and the average interest rate incurred on interest bearing liabilities.

Interest Earning Assets
Assets on which the Bank earns interest are considered as interest earning assets. These includes Loans and Advances, placements with banks, other interest bearing trading and non trading investments.

Investment Properties
Investment property is property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for use or sale.

K

Key Management Personnel
Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

Leverage Ratio
The leverage ratio measures how leveraged a bank capital is in relation to its consolidated assets, derivatives exposures and off-balance sheet items. The leverage ratio constrains the degree to which the bank can leverage its capital and improve the extent to which it can sustain negative shocks to its balance sheet.

Lifetime Expected Credit Losses
Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Liquid Assets
Assets that are held in cash or in a form that can be converted to cash readily.

Liquidity Risk
The risk that an entity will encounter difficulty in meeting obligations associated with Financial Liabilities.

Loans and Receivables
Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

Loss Given Default (LGD)
LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the Exposure at Default.

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.

Glossary of Financial & Banking Terms

Materiality
The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

Moratorium Period
A moratorium period is a period during a loan term when the borrower is not obligated to make a payment. It is a waiting period before the borrower starts making fixed monthly payments.

N

Net Accommodation
Total net accommodation computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of five years or more.

Net Assets Value per Share
Total shareholders' funds divided by the number of ordinary shares in issue.

Net Interest Income
The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds, subordinated term borrowings and inter-bank borrowings etc.

Net Open Position
Net Open Position or "NOP" means the net sum of all foreign currency assets and liabilities of a financial institution, inclusive of all of its spot and forward transactions and off balance sheet items in that foreign currency.

Net Stable Funding Ratio (NSFR)
NSFR measures the amount of longer-term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Non-Performing Loans Ratio (Gross)
Total Non-Performing Loans net of interest in suspense divided by total advances portfolio net of interest in suspense.

Non - Performing Loans Ratio (Net)
Total Non - Performing Loans net of interest in suspense and loan loss provisions divided by total advance portfolio net of interest in suspense.

Nostro Account
A foreign currency current account maintained with another Bank, usually but not necessarily a foreign correspondent Bank.

O

Off-Balance Sheet Transactions
Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

Operational Risk
This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Open Credit Exposure Ratio
Total net non-performing Loans and Advances expressed as a percentage of regulatory capital base.

P

Price to Book Value
Shows a comparison of Bank's market price to book value.

Past Due
A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Price Earnings Ratio
The current market price of a share divided by the earnings per share.

Provision for Loan Losses
A charge to income added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets to estimated realisable values.

Projected Unit Credit Method
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Probability of Default (PD)
PD is an estimate of the likelihood of default over a given time horizon.

Provision Cover (Regulatory)
Total provisions for loan losses expressed as a percentage of Net Non-Performing Loans and Advances before discounting for provisions on Non-Performing Loans and Advances.

Prudence
Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Purchased on Credit Impaired Financial Assets (POCI)
POCI assets are financial assets that are credit impaired on the initial recognition.

R

Ratio of Impaired Loans and Advances
Ratio for Impaired Loans and Advances is the ratio of gross impaired Loans and Advances portfolio as a percentage of gross Loans and Advances.

Related Parties
Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Repurchase Agreement
Contract to sell and subsequently repurchase securities at a specific date and price.

Re-scheduled Credit Facilities
Re-scheduled credit facilities are facilities which the original repayment terms have been amended due to deterioration in credit quality, while the respective facility is in the 'Non Performing' status as defined in the relevant regulatory directions.

Re-structured Credit Facilities
Re-structured credit facilities are credit facilities which the original repayment terms have been amended due to deterioration in credit quality while the respective facility is in the 'Performing' status as defined in the relevant regulatory directions.

Return on Assets (ROA) - After Tax
Profit after tax divided by the average assets.

Return on Equity (ROE)
Profit after tax expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserve
Reserves set aside for future distribution and investment.

Reverse Repurchase Agreement
Transaction involving the purchase of the securities by a bank or dealer and resale back to the seller at a future date and specified price.

Risk Weighted Assets
On-Balance Sheet assets and the credit equivalent of Off- Balance Sheet facilities multiplied by the relevant risk weighting factors.

Right-of-Use Assets
Right-of-Use Assets include assets recognised at the present value of future lease rentals less any amortisation and impairment accumulated at the date of reporting.

S

Segment Reporting
Segment reporting indicates the contribution to the revenue derived from business segments such as retail banking, corporate banking and treasury.

Shareholders' Funds
Total of stated capital, revenue reserves and capital reserves.

Stage 1 Financial Assets
When financial assets are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 also includes facilities where the credit risk has improved and the loan has been reclassified from Stage 2. This includes financial assets the credit risk of which have not been significantly increased since the origination.

Stage 2 Financial Assets
Financial assets that have shown a significant increase in credit risk since origination are considered as a stage 2 financial asset. The Bank records an allowance for the LTECLs on stage 2 assets. These include financial assets where the credit risk has improved and the assets that have been reclassified from Stage 3.

Stage 3 Financial Assets
Credit impaired financial assets are considered as stage 3 assets. The Bank records an allowance for the LTECLs for Stage 3 assets.

Stage 3 Loans (Impaired Loans) to Total Loans Ratio
This ratio shows impaired Loan & Advances (Stage 3), net of Stage 3 impairment provisions, as a percentage of total on balance sheet credit facilities and their respective undrawn amounts.

Stage 3 Loan Impairment to Stage 3 Loans Ratio (Stage 3 Provision Cover)
Stage 3 provision cover is calculated by dividing Loans & Advances impairment (Stage 3),by stage 3 Loans & Advances Including their respective undrawn amounts.

Standing Deposit Facility
Standing Deposit Facility allows the Central Bank of Sri Lanka to absorb liquidity from commercial banks without giving government securities in return to the banks. In this sense, the Standing Deposit Facility (SDF) is a collateral free arrangement that CBSL need not give collateral for liquidity absorption.

Statutory Reserve Fund
A reserve created as per the provisions of the Banking Act No. 30 of 1988.

T

Total Tier 1 Capital
Total Tier 1 Capital comprise of Common Equity Tier 1 Capital and Additional Tier 1 Capital.

Tier 2 Capital
The Tier 2 Capital comprise of Eligible Subordinated Debt, 100% of impairment for assets in stage 1 and 50% of impairment for assets in assets in stage 2, subject to a maximum of 1.25% of Risk Weighted Assets for Credit Risk. and approved Revaluation Surpluses on Freehold Land and Building.

Total Capital
Total Capital representing the sum of Total Tier 1 Capital and Tier 2 Capital.

Transaction Costs
Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Total Impairment Provision Cover Ratio
Total Impairment Cover depicts total impairment provision of Loans and Advances as a percentage of Stage 3 Loans and Advances inclusive of their respective undrawn amounts.

Twelve Month Expected Credit Losses (12mECL)
12mECLs are expected credit losses that result from all possible default events over a 12 month period. Stage 1 assets are subject to 12mECLs.

U

Undrawn Credit Lines
Credit facilities approved but not yet utilised by the clients as at the end of the reporting period.

Unit Trust
An undertaking formed to invest in securities under the terms of a trust deed.

Unsecured
Repayment of the principal and interest not being secured by any specific asset.

V

Value Added
Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y

Yield to Maturity
Discount rate at which the present value of future payments would equal the security's current price.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the TWENTY SEVENTH ANNUAL GENERAL MEETING of PAN ASIA BANKING CORPORATION PLC will be held as a virtual meeting emanating from the Board Room of Pan Asia Banking Corporation PLC, No. 450, Galle Road, Colombo 03 on 31st March 2022 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 2021 with the Report of the Auditors thereon.

2. To re-elect, Aravinda Perera, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.

3. To re-elect, Nihal Kekulawala, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.

4. To re-elect, B D A Perera, in terms of Article 89 of the Articles of Association as a Director.

5. To re-elect, Sandra Walgama, in terms of Article 89 of the Articles of Association as a Director.

6. To re-elect, Chethiya Umagiliya, in terms of Article 89 of the Articles of Association as a Director.

7. To authorise the Directors to determine donations for the year 2022.

8. To re-appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.

Notes :

1. A member entitled to participate and vote at the Virtual meeting is entitled to appoint a proxy to participate and vote in his/her stead.

2. A proxy need not be a member of the Company. The form of proxy is enclosed herewith.

By Order of the Board

N Fernando

Nayantha Fernando
Company Secretary

18th February 2022

Notes

Notes

Form of Proxy

I/We ....

(NIC No/s..) of..

.... being a shareholder/being shareholders of Pan Asia Banking Corporation PLC, hereby appoint

1. S B Rangamuwa of Colombo or failing him
   Aravinda Perera of Colombo or failing him
   Mohan Abeynaike of Colombo or failing him
   Toyohiko Murakami of Colombo or failing him
   Nihal Kekulawala of Colombo or failing him
   B D A Perera of Colombo or failing him
   Sandra Walgama of Colombo or failing her
   Chethiya Umagiliya of Colombo or failing him
   Nimal Tillekeratne of Colombo

2. ....

   (NIC No...) of ....

   ....

as my/our* proxy to vote on my/our* behalf at the Twenty Seventh Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 31st March 2022 at 9.30 a.m. and at any adjournment thereof.

I/We, the undersigned, hereby authorise my/our* proxy to vote for me/us* and on my/our* behalf in accordance with the preference as indicated below.

	For	Against
1. **Resolution No. 1** To receive and consider the Annual Report of the Board of Directors on the Affairs of the Bank and the Audited Financial Statements for the year ended 31st December 2021 with the Report of the Auditors thereon.	☐	☐
2. **Resolution No. 2** To re-elect Aravinda Perera, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.	☐	☐
3. **Resolution No. 3** To re-elect Nihal Kekulawala, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.	☐	☐
4. **Resolution No. 4** To re-elect, B D A Perera, in terms of Article 89 of the Articles of Association as a Director.	☐	☐
5. **Resolution No. 5** To re-elect, Sandra Walgama, in terms of Article 89 of the Articles of Association as a Director.	☐	☐
6. **Resolution No. 6** To re-elect, Chethiya Umagiliya, in terms of Article 89 of the Articles of Association as a Director.	☐	☐
7. **Resolution No. 7** To authorise the Directors to determine the donations for the year 2022.	☐	☐
8. **Resolution No. 8** To re-appoint the Auditors of the Bank, M/s Ernst &Young and to authorise the Directors to determine their remuneration.	☐	☐

As witness I/we* have set my/our* hand/s* hereunto this ....day of ....Two Thousand and Twenty Two.

....
Signature of Shareholder.

Form of Proxy

Note : Instructions as to completion of the Form of Proxy.

1. To be valid, this form of proxy must be deposited with the Company Secretary at the Registered Office situated at No.450, Galle Road, Colombo 3, or emailed to csy@pabcbank.com or faxed to +0094112301844 on or before 9.30 a.m. on the 29th March, 2022 being at least 48 hours before the time appointed for holding the meeting.

2. In perfecting the form of proxy please ensure that all details are legible and the proxy appointed need not be a shareholder of Pan Asia Banking Corporation PLC.

3. If the shareholder is a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.

4. A shareholder appointing a proxy (other than a Director of the Bank) to participate in the meeting should indicate the proxy holder's National Identity Card (NIC) number on the Form of Proxy.

5. Please indicate with 'x' in the space provided how your proxy is to vote on each resolution.

6. Shareholders who are unable to participate through the online meeting are encouraged to duly complete the form of proxy clearly setting out their preference of vote under each matter set out in the Form of Proxy and to appoint one of the Directors of the Bank or any other person to act on their behalf in order that each shareholder's vote may be identified and recorded as if such shareholder were present.

*Delete whichever is inapplicable.

Corporate Information

Registered Name of the Company
Pan Asia Banking Corporation PLC

Legal Form
A Public Limited Liability Company incorporated in Sri Lanka on 06th March 1995 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007. A Licensed Commercial Bank under the Banking Act No. 30 of 1988 and listed on the Colombo Stock Exchange.

Company Registration Number
PQ 48

Registered Office/Head Office
No. 450, Galle Road,
Colombo 03.
Sri Lanka.

Telephone :	+94112565565
	+94114667777
	+94115167777
Fax :	+94112565558

Call Center (24/7 Customer Service Hotline)

Telephone :	+94114667222
Fax :	+94112575023
SWIFT Code :	PABSLKLX
E-mail :	customerservice@pabcbank.com
Web Site :	www.pabcbank.com

Tax Payer Identification Number (TIN)
134005700

Accounting Year End
31st December

Stock Exchange Listing
442,561,629 Ordinary Voting Shares

Board of Directors
S B Rangamuwa - Chairman
Aravinda Perera - Deputy Chairman
Mohan Abeynaike - Senior Director
Toyohiko Murakami - Director
Nihal Kekulawala - Director
B D A Perera - Director
Sandra Walgama - Director
Chethiya Umagiliya - Director
Nimal Tillekeratne - Managing Director/CEO

Company Secretary
Nayantha Fernando

Mandatory Board Committees

Board Audit Committee
Mohan Abeynaike - Chairman
Toyohiko Murakami - Director
Nihal Kekulawala - Director
B D A Perera - Director
Nimal Tillekeratne - Managing Director/CEO (By invitation)

Board Integrated Risk Management Committee
Nihal Kekulawala - Chairman
S B Rangamuwa - Director
Mohan Abeynaike - Director
Nimal Tillekeratne - Managing Director/CEO

Board Human Resources & Remuneration Committee
S B Rangamuwa - Chairman
Mohan Abeynaike - Director
Nihal Kekulawala - Director
Nimal Tillekeratne - Managing Director/CEO

Board Nomination Committee
Mohan Abeynaike - Chairman
Aravinda Perera - Director
B D A Perera - Director
S B Rangamuwa - Director (By invitation)
Nimal Tillekeratne - Managing Director/CEO (By invitation)

Board Related Party Transaction Review Committee
Mohan Abeynaike - Chairman
S B Rangamuwa - Director
Nihal Kekulawala - Director
Nimal Tillekeratne - Managing Director/CEO

Voluntary Board Committees

Board Credit Committee
S B Rangamuwa - Chairman
Aravinda Perera - Director
Nihal Kekulawala - Director
B D A Perera - Director
Nimal Tillekeratne - Managing Director/CEO

Board Strategic Planning Committee
Mohan Abeynaike - Chairman
S B Rangamuwa - Director
Nihal Kekulawala - Director
Aravinda Perera - Director
Nimal Tillekeratne - Managing Director/CEO (By invitation)

Board Recoveries Committee
S B Rangamuwa - Chairman
Aravinda Perera - Director
B D A Perera - Director
Nimal Tillekeratne - Managing Director/CEO

Board IT Steering Committee
Aravinda Perera - Chairman
S B Rangamuwa - Director
Mohan Abeynaike - Director
B D A Perera - Director
Nimal Tillekeratne - Managing Director/CEO

Auditors
Ernst & Young
Chartered Accountants
No. 201, De Saram Place,
P. O Box 101,
Colombo 10,
Sri Lanka.

Credit Rating
Fitch Rating 'BBB-(lka)' Stable Outlook

Designed & produced by
emagewise
Printing by Softwave Printing and Publishing (Pvt) Ltd

PAN ASIA BANK
The Truly Sri Lankan Bank

PAN ASIA BANKING CORPORATION PLC
450, Galle Road,
Colombo 03,
Sri Lanka.

www.pabcbank.com
Call : +94 11 4 667 222
Fax : +94 11 2 575 023