

Numbers Talk



Annual Report

2016

+
17
%

Net Interest Income
Rs.4.63 Billion

+

20%

Profit for the Year
Rs.1.25 Billion

19.
97%

Return on Equity

+36%

Net Fee and Commission Income
Rs.1.11 Billion

+

18

%

Customer Deposits

Rs.91.46 Billion

+
20
%

Total Assets

Rs.129.45 Billion

Numbers talk

This year we don't need to say much because as you can see above, our numbers speak for themselves. We're continuing the powerful trajectory of growth we've been on for several years now, developing a strong, sustainable banking operation offering good returns to the many stakeholders we partner.

Today, we believe we have proved the excellence of our business model, as this Report will show. That's why we will continue to be Sri Lanka's fastest growing bank, shifting paradigms, exploring new horizons and setting the pace in all that we do.

We don't need to say much.
Because our **numbers talk**.

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Vision

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

Mission

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

Values

Act with Courage and Integrity

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

Dependability

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

Team Work

We are a group of strong and diverse individuals who collaborate with each other and 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.

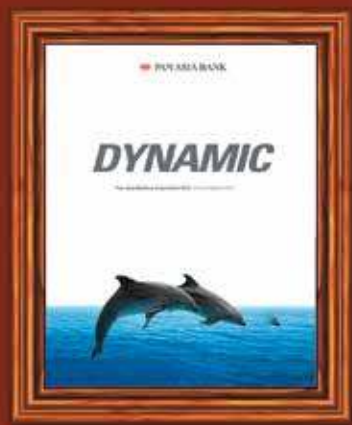
Commitment

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.

Walking the talk



THROUGHOUT THESE YEARS, OUR WILLINGNESS TO ADAPT AND BE FLEXIBLE ENOUGH TO SWIFTLY GRASP THE OPPORTUNITIES OFFERED BY THE HEADWINDS HAS BEEN OUR STRONGEST ASSETS, MAKING US A ROLE MODEL TO THOSE STRONGER AND FITTER.

Thus Far and Farther...

Our journey of just over two decades has been an eventful one, where we have endured challenges and emerged a strong, resilient force in the Banking sector. Throughout these years, our willingness to adapt and be flexible enough to swiftly grasp the opportunities offered by the headwinds has been our strongest assets, making us a role model to those stronger and fitter.

Our story has been akin to a tree that takes deep root to withstand all that nature throws at it. As the mighty trees do, we have transformed our growth and success to provide shelter to those who need it the most - especially the financially marginalised communities.

We have ingrained the desire to provide financial inclusion as our commitment and social responsibility. As a partner that truly cares about the empowerment of all, we nurture those who nurture us.

Today, we are humbled by the bank that we have become and excited by the possibilities of what's to come. As we grow, we want all of our stakeholders to enjoy the fruits of their partnership with Pan Asia Bank as it is their story as much as ours.

Promises, Delivered

Promises are often made, but rarely made good of, and are often forgotten. At Pan Asia Bank however, 'our word is our bond'. We don't just deliver on our promises but strive to constantly exceed expectations.

Here are some of the promises we pledged during the past 3 years, and on how we delivered them to you, our stakeholders:

- In 2014 we demonstrated how our 'Dynamic' team helped drive the turnaround of the Bank's performance in a matter of 12 months. In 2014 we increased our net profits three fold.

- In 2015 we asked every one of our stakeholders to 'Believe' in us because we knew we could expand our boundaries farther and achieve more. And we did!

Our promises of a billion Rupee profit and a 100 billion Rupee asset base were delivered ahead of the year end; that is a profit after tax of Rs.1.04 billion and Rs.107.8 billion asset base.

- In 2016 we are letting our numbers do the talking because we have pulled off yet another record financial performance amid much tougher conditions for the industry.

Our Rs.1.25 billion profit is the highest so far reported, and we have maintained our returns well above the industry average while improving the asset quality to multi-year highs.

Unleashing the Potential

Our potential is immense and our belief in ourselves, phenomenal. That potential is now being unleashed as we plan our growth strategies for the next three years. In tandem, we have further strengthened the Bank's leadership and stewardship infusing the Board and the management with experienced industry leaders.

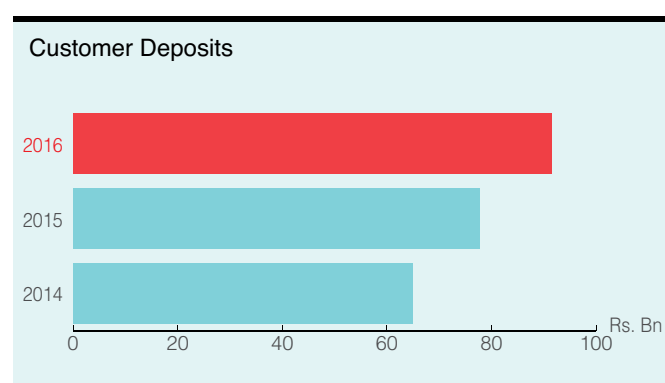
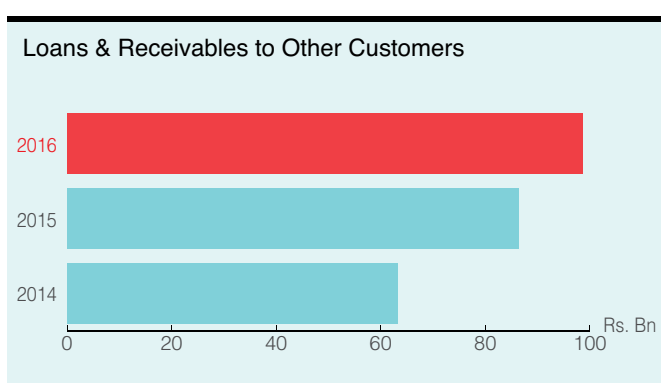
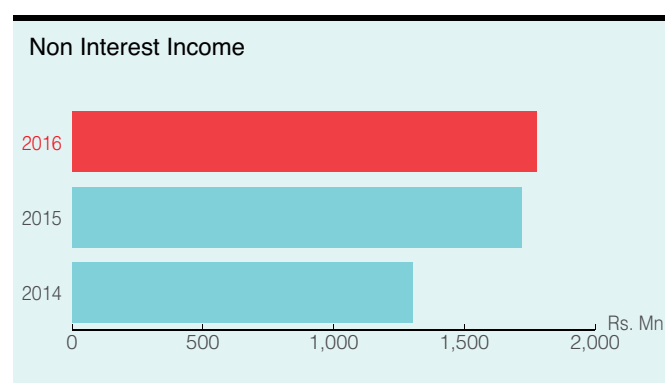
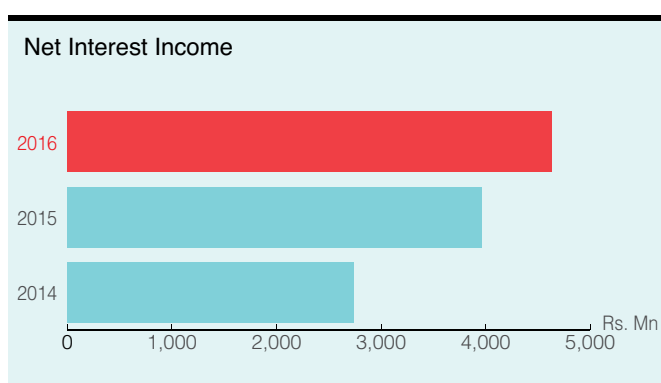
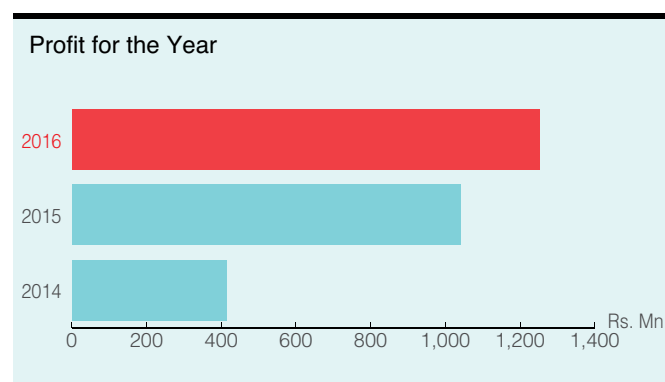
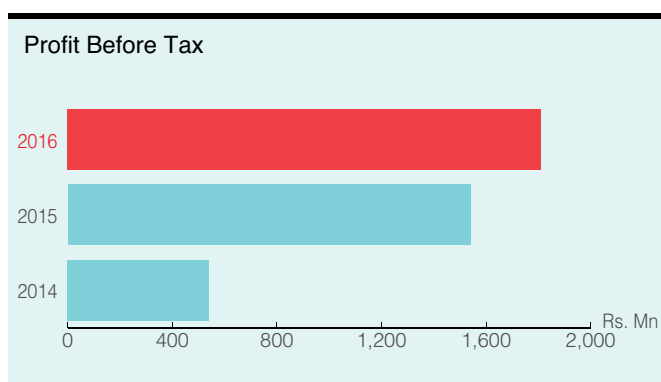
The forthcoming appointment of a new Chief Executive Officer to lead our able corporate management team will uplift our performance to new vistas as a solid mid-sized commercial bank in Sri Lanka.

Financial Highlights

	2016	2015	Change %
Results for the Year (Rs. Mn)			
Gross Income	15,144.74	10,759.14	40.76
Net Interest Income	4,633.38	3,962.59	16.93
Total Operating Income	6,342.13	5,634.33	12.56
Operating Profit Before VAT and NBT on Financial Services	2,290.84	1,904.00	20.32
Profit Before Tax	1,807.58	1,542.13	17.21
Profit for the Year	1,251.70	1,040.52	20.30
Position at the Year End (Rs. Mn)			
Gross Loans and Receivables to Other Customers	98,509.79	86,322.65	14.12
Total Assets	129,451.08	107,782.97	20.10
Due to Other Customers (Customer Deposits)	91,456.41	77,697.05	17.71
Shareholders' Funds	6,872.15	5,773.27	19.03
Financial & Investor Ratios			
Net Interest Margin (%)	3.87	4.34	(10.83)
Return on Equity (%)	19.97	19.94	0.15
Return on Assets (%)	1.05	1.14	(7.89)
Cost to Income Ratio (%)	56.03	53.29	5.14
Earnings per Share (Rs.)	4.24	3.53	20.11
Net Assets Value per Share (Rs.)	23.29	19.57	19.01
Market Price per Share (Rs.)	20.00	27.10	(26.20)
Statutory Ratios			
Capital Adequacy			
Eligible Core Capital (%) (Minimum Requirement - 5%)	8.37	7.82	7.03
Total Capital (%) (Minimum Requirement - 10%)	11.40	12.30	(7.32)
Liquid Asset Ratios			
Domestic Banking Unit (%) (Minimum Requirement - 20%)	28.03	24.39	14.92
Foreign Currency Banking Unit (%) (Minimum Requirement - 20%)	38.82	50.63	(23.33)
Non Performing Advances Ratio (%)			
Gross	4.74	4.84	(2.07)
Net	2.95	3.26	(9.51)

Rs. 15.14Bn

Gross Income
Increased by 41%



Rs. 98.51 Bn

**Gross Loans & Receivables to Other Customers
Increased by 14%**

2.95%

**Net Non Performing Advances Ratio
Improved by 10%**

Achieving more

1

Opening of 80th Branch in Kottawa

The Bank opened its 80th branch in Kottawa enabling the customers and businesses in the sprawling city to enjoy the innovative Banking solutions offered by the Bank.

3

Sri Lanka's Fastest Growing Bank for the 3rd consecutive year

Pan Asia Bank was recognised as the country's 'Fastest Growing Commercial Bank' by the London based Global Banking & Finance Review.

5

Most Innovative Banking Product in Sri Lanka

The Bank's leading childrens' savings product, 'Daskam' was recognised by Global Banking & Finance Review as the industry's most innovative product.

7

Best Employer of the Year

The South Asian Partnership Summit & Business Awards recognised Pan Asia Bank with the 'Best Employer of the Year' award in 2016.

€

Gold Award for Business and Financial Performance

Pan Asia Bank was awarded as the overall winner for its excellent business and financial performance by the National Chamber of Commerce of Sri Lanka.

2

Plugging in to LankaPay Common ATM Switch (CAS)

The bank plugged itself in to the CAS offered by LankaPay, Sri Lanka's national payment gateway provider with access to over 2,765 ATM's across the country.

€

Innovative Step-up Housing Loan Product

The Bank introduced a novel loan scheme which enables the borrowers to make early repayments with lower installments followed by gradually increasing installments at the later part of the tenure.

4

Cutting Edge Digital Channel Solutions

The Bank signed up with Fortunaglobal (Pvt) Ltd., a leading provider of digital banking software solutions to implement a suite of cutting edge digital channel solutions.

€

'Pan Asia Stargate'

For the 1st time in the industry, Pan Asia Bank in affiliation with the Institute of Bankers, Sri Lanka offers a structured internship programme for the school leavers who aspire a career in the Banking industry.

10

Asset Base Crossed Rs.125 Bn

The Bank's asset base crossed historical milestone of Rs.125 billion and closed the year with Rs.129.45 billion.

15

USD 17.25 Mn funding line from a European Financier

After successful negotiations, the Bank received a 5 years USD 17.25 million funds from Micro, Small and Medium Enterprises Bonds S.A, Luxembourg based fund specialised in SME development.

12

Runner-up in the Banking Sector - National Chamber of Commerce Awards

Pan Asia Bank's excellence in Banking services was recognised with the runner-up award at the National Business Excellence Awards 2016.

17

Opening of 82nd Branch in Mawanella

The Bank opened its 82nd branch in Mawanella, a rapidly growing city in the upcountry to bring in more innovative financial solutions.

14

Opening of 81st Branch in Kaduwela

Pan Asia Bank opened its 81st branch in Kaduwela, a gateway to many areas in the country.

11

Towards Greener Banking

With the view of reducing the carbon footprint of all our banking activities the Bank introduced a comprehensive 'Environmental & Social Policy'.

16

'Red Cupboard' the Library Project

The Bank undertook a project to improve the library facilities of schools identified in remote areas of the country.

13

Unique Condominium Financing Solutions

The Bank launched an innovative financial solutions for those who are aspiring to own his/her own apartment for residential, investment and upgrading purposes.

18

Profit for the Year Surpassed Rs.1.25 Bn Mark

Continuing the progress in the financial performance, the pre-tax profit of the Bank surpassed the Rs.1.75 billion mark and the post-tax profit recorded a historical highest of Rs.1.25 billion in 2016.



①



②



③



④



⑤

WE TAKE HUMBLE PRIDE FOR THE MULTIPLE ACCOLADES RECEIVED IN RECOGNITION OF OUR BANKING EXCELLENCE AT VARIOUS NATIONAL AND INTERNATIONAL BENCHMARK EVENTS AND CONTESTS. AMONG MANY OF OUR ACHIEVEMENTS, THE YEAR 2016 MARKS THE MOSTLY AWARDED YEAR IN THE HISTORY OF YOUR BANK. THESE AWARDS SPEAK VOLUMES OF OUR NUMEROUS ACHIEVEMENTS MADE THROUGHOUT THE YEAR TO BECOME A TRUE BENCHMARKED PLAYER IN THE INDUSTRY FOR THE REST TO LOOK UP TO.

Proving Leadership

1

Overall Winner at National Business Excellence Awards 2016

The year 2016 has seen Pan Asia Bank reaching the pinnacle in the corporate sector as its Business & Financial performance was recognised as the best out of all the corporates that participated at the 2016 diet of the National Business Excellence Awards (NBEA), the benchmark business excellence competition conducted by the National Chamber of Commerce of Sri Lanka.

The award marks one of the highest recognitions the Bank has received in its 21 years of proud history recognising its sustainable business and financial results.

The Bank's business and financial performance was evaluated based on multiple performance indicators such as the earnings per share, return on equity, non-performing loan ratio, cost-to-income ratio, etc., which have shown steady improvement during the last three financial years.

In fact, the recognition was on account of the Bank's turnaround performance in business and financial results during 2015 as the Bank surpassed an after tax profit of Rs.1.0 billion for that financial year, recording an increase of 151%. The Bank also crossed the Rs.100 billion asset milestone, in 2015 by recording a growth of 35%, one of the highest in the industry.

2

Most Innovative Banking Product in Sri Lanka

The Bank's leading children's savings product, 'Daskam' was also recognised as the industry's most innovative product in 2016.

'Daskam' offers an additional 10% deposit from the Bank on top of each and every customer deposit with an enhanced interest rate of 8% (8.33% A.E.R) on the total balance, making it a truly unique value added product.

This is also the third consecutive time one of bank's innovative products has received international recognition as its groundbreaking senior citizens' lending product 'Sammama' and its leasing product, 'Budget Leasing' were adjudged as most innovative banking sector products in 2014 and 2015 respectively.

3

Fastest Growing Commercial Bank in Sri Lanka Award

Pan Asia Bank was adjudged as the 'Fastest Growing Commercial Bank in Sri Lanka' in 2016 for the third consecutive time by London based Global Banking & Finance Review making it the only bank in Sri Lanka to have been awarded thrice in a row by them.

The Bank's market reach, growth in assets and consistent performance track

record during 2014 to 2016 provide a clear indication of its high level growth in comparison to peers.

London based Global Banking and Finance Review annually recognises outstanding achievements in the financial services industry and this award reflects the Bank's continuous progress made in areas of strategy, market reach and financial performance among others.

4

Runner-up Award in the Banking Sector

Reaching another milestone, Pan Asia Bank was also adjudged as the 'Runner-up' in the Banking Sector at the NBEA 2016 which is a clear testament to the level of excellence pursued by the bank in all its banking practices.

The fact that this award was won amid competition from many older and larger players in the banking industry makes it an especially noteworthy achievement for the bank.

For this award, the Bank's performance was subjected to a rigorous evaluation under seven key areas namely; excellence in leadership, excellence in corporate governance, excellence in capacity building, excellence

in market reach, excellence in corporate social responsibility and excellence in business & financial results by a panel of prominent judges.

This award demonstrates the continued progress made by the bank during the recent past in all its areas of performance which surpassed not just the peers but also much larger counterparts in the industry. Being the runner-up in an industry consisting of 25 players – both local and foreign – makes Pan Asia Bank a force to be reckoned with.

5

Best Employer of Sri Lanka Award

The bank was recognised as the 'Best Employer of Sri Lanka' at the South Asian Partnership Summit & Business Awards 2016.

This award recognised the bank's continuous efforts and investments in its most valued asset – its staff, excellent employee relations and commitment demonstrated at all times to empower and enrich the staff to develop a future ready talent pool who can take up the leadership roles in the future. Therefore, this award recognises the bank has proactive measures undertaken for succession planning and building of a talent pool at a time when the banking industry is challenged by dearth of talent.

**We're not
saying much**

**Rs. 129.
45Bn**

Total Assets

THE POLICIES AND OUR STRATEGIES WERE FINELY DESIGNED
TO ENSURE A SUSTAINED GROWTH OF YOUR BANK TO
ENSURE THAT THEY TURN INTO HIGHER EARNINGS, THEREBY,
MAXIMISING YOUR WEALTH ON A SUSTAINED BASIS.



Eshana De Silva
Chairman

Rs.23.29

Net Asset Value Per Share

Increased by 19.01%

Dear Shareholder,

Your Bank performed exceptionally well in almost all areas of business during 2016 marking the best financial year Pan Asia Bank have had so far in its 21 year history.

The policies and our strategies were finely designed to ensure a sustained growth of your Bank to ensure that they turn in to higher earnings, thereby, maximising your wealth on a sustained basis.

Hence, I am confident that these results which will be uncovered throughout this report will undoubtedly delight you and our stakeholders at large which was made possible by the leadership and the considerable guidance given by my fellow members of the Board.

Performance in Context

Your Bank stepped in to 2016 with strong fundamentals laid down during the previous years providing us with the strength, momentum and resilience to conquer potential challenges whilst making progress in all areas.

This is amply demonstrated by the numbers that will be uncovered throughout this report which will provide a strong testament to our ability to perform even under less favourable monetary and market conditions.

Your Bank posted a pre tax profit of Rs.1.81 billion, the highest achieved in the history of the Bank, recording a growth in excess of 17.21% over the previous year.

The bottomline also followed suit to record a growth exceeding 20% to Rs.1.25 billion, setting up another earnings record. The fact that these numbers were achieved despite the increased taxes applicable on the Banking sector further increases the value of the performance of your Bank.

Despite the restraining monetary and fiscal conditions that held back much of the growth in loans and advances in the banking sector, your Bank was able to grow its asset base by 20.10%, to end the year with Rs.129.45 billion asset base.

The net loans and receivables to other customers ended the financial year with Rs. 95.83 billion, recording a growth of 13.84% .

Despite this robust expansion in loan book, what is notable was the continuous improvements seen in the asset quality as your Bank further improved its gross non-performing loan ratio to 4.74% from 4.84% a year ago.

Rs.1.81 Bn

Pre Tax Profit

Increased by 17.21%

It is also noteworthy that your Bank has secured a funding facility of USD 17.25 million from Micro, Small & Medium Enterprises Bonds S. A, a European Financer. This is the second instance within a matter of three years your Bank entered in to a funding line with an international lender after the bank completed a seven year funding line with Global Climate Partnership Fund in 2015.

Your Bank also announced a rights issue in December to raise over Rs.2.0 billion in accordance with the two year capital augmentation plan approved by the Central Bank of Sri Lanka (CBSL). By the time you read this annual report, I am confident that you would have given your approval for this capital call.

Furthermore, we are also well aware of the new Basel III rules and are taking necessary steps to meet the higher capital adequacy requirements under the new accord which will commence from July 01, 2017.

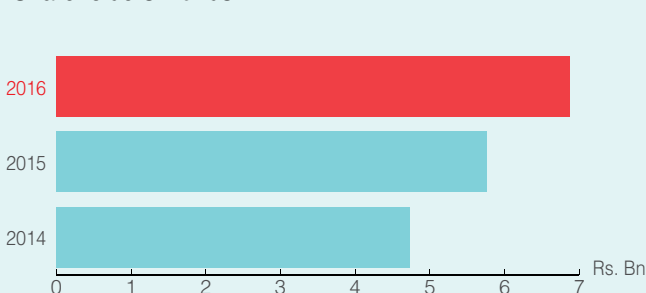
A significant highpoint in 2016 was the fact that your Bank became the overall winner in the corporate sector for its stellar business and financial performance at the National Business Excellence Award 2016, the benchmark business excellence recognition event conducted by the National Chamber of Commerce of Sri Lanka.

Apart from this, your Bank also became the runner-up in the banking sector competing with larger and older competitive banks in the country.

These two accolades speak volumes of the excellence that your Bank has achieved in conducting its banking business.

Furthermore in 2016, your Bank was also adjudged as the Fastest Growing Commercial Bank in Sri Lanka by the London based Global Banking and Finance Review for the third consecutive time.

Shareholders' Funds



It is with much humility that I acknowledge that this commendable performance could not have been possible without the clear guidance given by the Board, strong management team for their excellent foresight and sound decision making, efficient execution of the strategies by all staff of the bank.

Let me now elaborate on some of the salient global and domestic macro-economic conditions under which your Bank performed during 2016, with set out the challenges and the opportunities which your Bank and the sector as a whole has to encounter in the ensuing year.

Economic Developments in 2016

As you are well aware, the global economic uncertainties heightened during the year mainly due to increased political risks such as the Britain's shock vote to leave the European Union and the surprise outcome of the presidential election in the United States (US).

The Brexit aftermath saw the Sterling plunging against major currencies before regaining some lost ground thereafter. The US Dollar strengthened against all major currencies, the global stocks outperformed and the economic forecasts on the US and other major economies turned positive.

This rising wave of populism in Europe and North America have reshaped the economic and financial markets throughout the globe, while China is also expected to have a soft-landing in their economy showing more resiliency - hence demonstrating better prospects for the global economy as a whole.

The International Monetary Fund (IMF) forecasts a 2.3% growth in the US and 3.4% in the global economy for 2017.

Meanwhile the US Federal Reserve increased their benchmark treasury yield by another 25 basis points in December, the first time in a year and the second time in a decade forecasting at least another three rate hikes in 2017 on the optimism of rising inflation, tightened job markets and higher growth.

The US rate increase has had an adverse impact on emerging markets as funds began flowing out in to the safer US treasuries pressurising most Asian market currencies, including the Sri Lankan Rupee.

The relaxed fiscal and monetary policies pursued in 2015, spiked the demand for bank credit in over and above the deposits it raised. Suchly earned credit fueled the country's import bill while the lower rates in the domestic treasuries accelerated fund outflows from the government securities

YOUR BANK STEPPED IN TO 2016 WITH STRONG FUNDAMENTALS LAID DOWN DURING THE PREVIOUS YEARS PROVIDING US WITH THE STRENGTH, MOMENTUM AND RESILIENCE TO CONQUER POTENTIAL CHALLENGES WHILST MAKING PROGRESS IN ALL AREAS.



market bringing dual pressure on the Rupee. As a result Sri Lankan Rupee depreciated 3.8% in 2016 after falling 9% in 2015.

However, the industry saw reversal of these policies during the 2016, as the CBSL started taking preemptive measures to rein in inflation and private credit growth.

Hence, the year saw the CBSL increasing its key policy rates by 100 basis points - 50 basis points each and increasing the statutory reserve ratio by 150 basis points. As a result, the market interest rates adjusted upwards.

However, the demand for private sector credit remained stubbornly high according to the CBSL Statistics, during 2016, as the private sector credit rose by Rs.754 billion, the highest in the history in a single year. This is on top of a Rs.692 billion growth in private credit in 2015.

While the IMF forecasts a growth of 4.8% for Sri Lanka this year, in this context it is likely for higher rates to prevail at least during the 1st half of 2017 given the need to curb inflationary pressures as well as to rein in the private sector credit to a level below 20% as desired by the CBSL.

We however remain positive over the demand for consumption credit, albeit at a slower pace. The new economic opportunities that may open up as part of the government's economic policy of investment led export industries in its quest for an upper middle income economy in return to open up economic opportunities for everyone.

GOING FORWARD, THE BANK WILL CONTINUOUSLY REMAIN OPEN TOWARDS EXPLOITING OPPORTUNITIES AS AND WHEN THEY ARISE; TO ENHANCE THE VALUE TO OUR STAKEHOLDERS, AND IN PARTICULARLY TO CHANNEL OUR FUNDS IN TO PRIORITY SECTORS OF THE ECONOMY.



Our Focus in 2017

Your Bank's trust is its people and the exemplary level of service is second to none. Hence, we will continue to invest in our people, the Bank's most valued asset because we believe in a well contented workforce who will go the extra mile to keep our customers happy.

We also believe that there is no other substitute to service quality that ensures sustainable competitive advantage in all what we do and also to deliver on our brand promise, 'The Understanding Bank'.

We are cognizant of the fact that creating financial inclusion is sine-qua-non in making an equitable society. For this purpose, we will continue to channel resources in to areas scattered across the country through our decentralised regional centers. Under this strategy, we will prioritise the Small and Medium Enterprises that will in turn create a lot more opportunities for a wider section of the society.

Through this, we will also help assist the Government's national economic policy agendas by way of minimising regional disparities. As a responsible lender, we will provide the much needed financial support to those who create economic value which has a multiplier effect in the society.

For this we will leverage digital platforms such as the now ubiquitous mobile phone, internet and social media in a greater scale than we did in the past to explore the full potential of these technologies to bring banking and finance on to their hands.

With regard to our physical expansion, we have already earmarked several key locations in the island, mostly in remote

regions to bring our innovative product portfolio along with our unique customer service closer to the people in those areas.

As the fastest growing bank in Sri Lanka, we will also develop innovative solutions to cater to the growing aspirational middle income consumer who seeks comfort and ease when banking. Our digital banking strategy will supplement this in serving our clients, more effectively with 24/7 accessibility.

Our products continue to evolve based on the requirements of customers. Therefore, we will continue to prioritise our investments on new products in all areas of banking - Retail, SME, Corporate and Treasury to meet those customer needs as well as to stay ahead of the competition at all times.

The era of high margins is a thing of the past, hence, we are well aware that Banking sector will have to embrace continuous efficiency enhancement strategies to remain competitive and remain lean so that we can quickly respond to the needs of the market than anybody else.

Going forward, the Bank will continuously remain open towards exploiting opportunities as and when they arise; to enhance the value of our stakeholders, and in particularly to channel our funds in to priority sectors of the economy.

To achieve this objective we will continuously review our strategies in a periodic manner as the political, economic, social, technological and environmental factors around us are changing rapidly and to ensure your Bank stays nimble enough to make the most out of these changes.

Outlook for 2017

With the demand for private sector credit still remaining strong, and the likely pressure on inflation from supply side factors such as the ongoing drought conditions, the challenge for the Central Bank of Sri Lanka (CBSL) will be to bring them both down to an acceptable level.

The CBSL has already expressed that they would allow more foreign exchange flexibility as they do not see any logical sense in defending the Rupee through Dollar sales, hence, the currency could further come under pressure unless a steady flow of foreign exchange materialises.

If the foreign investors continue to sell their holding in the government securities in response to further increase in US treasury yields, the local currency could further come under downward pressure.

The decline in water levels in the catchment areas has reduced the hydro-power generation capacity and as a result the reliance on high cost thermal power could lead to a higher fuel import bill at a time when the global crude prices are also on the rise. Further, measures to curb credit growth cannot be ruled out if the private credit does not ease.

These circumstances will continue to pose challenge to the Banking sector weighing on the sector growth.

Meanwhile, we welcome the moves to strengthen the regulatory and the supervisory framework through the proposed Banking Act amendments which will work towards creating a stronger banking system in the country.

The Bank has already taken steps to maintain adequate capital buffers to meet capital requirements both under the CBSL's minimum capital requirements and Basel III rules.

I would like to reiterate that your Bank is well poised to capitalise on the growth sectors which include but not limited to construction, export led industries, tourism and property development.

The borrowing we received in December and the proceeds from the rights issue will place your Bank in a strong position to exploit these opportunities. The Bank also mulls further funding lines from prospective lenders.

We are also closely watching for emerging economic segments from the proposed mega infrastructure development projects such as the Colombo International Financial City, Western Region Megapolis Development project, proposed investment and industrial zones, re-instatement of GSP+ concession, etc., that enable us to play a catalytical role in the national economy as well as in the people's day-to-day lives as, 'The Understanding Bank'.

Appreciation

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

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

I would like to express my appreciation to the corporate management team, all the employees for their passion and commitment towards bringing the Bank's vision and strategies to life.

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

The fruits of all your efforts will now start to uncover as you go through this report and I am confident the Bank is now poised to record even better results in 2017 and beyond, building on the remarkable progress made during the year.



Eshana De Silva
Chairman

Colombo, Sri Lanka
22nd February 2017

Letting the numbers talk

Rs.1.
25Bn

Post Tax Profit

Increased by 20.30%

OUR STRONG CUSTOMER FOCUS, DIVERSIFIED BUSINESS MODEL, PRUDENT RISK MANAGEMENT AND PROACTIVE DECISION MAKING ENABLED US TO PRODUCE ANOTHER SOLID YEAR OF FINANCIAL PERFORMANCE IN 2016, SUCCESSFULLY NAVIGATING THROUGH THE CHALLENGES POSED BY RISING INTEREST RATES, CHANGES TO THE TAX REGIME, AND GLOBAL AND DOMESTIC MARKET VOLATILITIES.



Dimantha Seneviratne
Immediate Past Chief Executive Officer

Lalith Jayakody
Acting Chief Executive Officer

Rs.2.29 Bn

**Operating Profit
Increased by 20.32%**

WE CERTAINLY DO NOT UNDERESTIMATE THE SIGNIFICANT ROLE THAT WE PLAY IN RE-SHAPING THE LIVES OF OUR CUSTOMERS AND THEIR BUSINESSES WHICH IN TURN WOULD HELP TO GROW THE SRI LANKAN ECONOMY.



Dear Stakeholder,

It is with great pleasure that we present to you the performance of your Bank for the financial year ended 31st December, 2016 in which the bank made notable strides on the strong fundamentals laid during the preceding years.

Forging lifelong relationships with each and every one of our customers over the years has been the cornerstone of our values and the key in achieving our vision, 'To become the most customer preferred commercial bank in Sri Lanka'.

Whether it is helping a student to finance his/her education, a young family to own their dream home, an entrepreneur to navigate uncharted waters or a retiree in managing his retirement and savings; we, at Pan Asia Bank have stood strong with our customers throughout their lifetime, in good times as well as bad times - understanding their true needs and offering solutions to fulfill their dreams.

This is our forte and the foundation on which our present day success had been built on. We strongly believe this is what makes us, 'The Understanding Bank'.

Last year was the best year your Bank has ever witnessed in its 21 year history because our performance - both financial and otherwise - surpassed previous year best and went on to earn national and international recognition.

Besides, we also remained the preferred choice across many of our businesses reflecting how well we serve our customers - individuals, households, businesses and corporations - who in fact make up the real economy. This is demonstrated through the performance of our credit portfolios in retail, credit cards and Small and Medium Enterprise (SME) sectors and the new corporate relationships along with trade business we forged during 2016.

We certainly do not underestimate the significant role that we play in re-shaping the lives of our customers and their businesses which in turn would help to grow the Sri Lankan

economy. We always put our customers first in everything we do, for it is our firm belief that our growth as a Bank will solely depend on how we serve our customers and how well we manage our businesses.

As you leaf through this report, you will find how our efforts and accomplishments have translated in to words and numbers.

However, it should be noted that this performance did not come without its share of challenges.

External Environment

The year under review saw the global financial markets strongly being impacted by the populist political movements in many countries. The rising populism in the East, West, and Europe was amply demonstrated by the Presidential election results both in Philippines, and United States as well as the Britain's vote to leave the European Union.

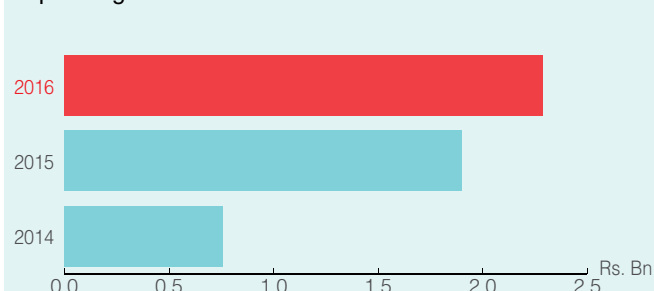
Despite numerous predictions painting doom and gloom leading up to these events, they turned a new chapter not just in global politics but also in economics, suddenly bringing a wave of optimism in to the global economic outlook.

The much anticipated increase in benchmark treasury yield by a quarter percentage by the US Fed in December, and their hawkish sentiments on future rate hikes - at least another three in 2017- is an indication of a strengthening US economy. The International Monetary Fund (IMF) has already revised its forecasted growth in US to 2.3% and the global growth to 3.4% for 2017.

Meanwhile, the Chinese economy which experienced a much softer landing with the economy is expected to have recorded a growth of around 6.8% in 2016 albeit the concerns surrounding the higher debt stock by both the Government and the private corporations.

Further, Europe also showed some signs of normalising with the European Central Bank signaling to reduce the pace of

Operating Profit



Rs.91.46Bn

Customer Deposits

Increased by 17.71%

quantitative easing from April onwards although the Italian banking sector is struggling with a high level of bad debts.

Meanwhile, the Sri Lankan economy also underwent a much needed correction when the country signed a USD 1.5 billion, three year stabilisation program with the IMF in June. This encompassed a host of fiscal reforms, particularly in increasing the State revenues and reforming the key Government owned business enterprises.

As a result of these austere fiscal measures, along with the tightened monetary policy, Sri Lankan economy slowed down its consumption led growth with a deceleration. However, the construction and services sector activities picked up during the latter part of the year.

According to the IMF, the Sri Lankan economy is projected to grow by 4.8% in 2017, slower than government's expectation of 6.3%.

The money market liquidity remained in deficit during most of the year forcing the Banking sector to fight hard to mobilise customer deposits amidst the intense competition. This pushed up the interest rates of deposits and advances by almost 200 to 300 basis points.

Despite these tighter monetary conditions, the private sector credit remained stubbornly high in 2016 with a total private credit growth during the year reaching an all time high of Rs.754 billion.

In a bid to rein-in this credit growth, the Central Bank of Sri Lanka brought in several macro-prudential limits such as Loan-to-Value ratios on vehicles of which the full impact will be seen from 2017 onwards due to 12 to 18 months lag effect.

Furthermore, the Banking sector was also subjected to the highest effective tax rate as in any industry with the Value Added Tax rate being raised from 11% to 15% during the latter part of the year.

All in all, the domestic Banking sector took much of the brunt of these global and domestic economic challenges and Pan Asia Bank was no exception to it.

Financial Results, Let our Numbers Talk

Our strong customer focus, diversified business model, prudent risk management and proactive decision making enabled us to produce another solid year of financial performance in 2016, successfully navigating through the challenges posed by rising interest rates, changes to the tax regime, and global and domestic market volatilities.

Pan Asia Bank made a pre tax profit of Rs.1.81 billion for 2016, recording a growth over 17%.

WE ALSO MAINTAINED OUR NET INTEREST MARGIN (NIM) AT 3.87%, WELL ABOVE THE INDUSTRY AVERAGE WHICH HOVERS AROUND 3.6% DUE TO OUR SWIFT ASSET AND LIABILITY RE-PRICING THAT WAS CARRIED OUT WITH MINIMUM ADVERSE IMPACT ON OUR CUSTOMERS.



Our post tax profit also reached an all time high of Rs.1.25 billion with an earnings per share of Rs.4.24, recording an increase of over 20%.

Our return on assets was 1.05% in 2016 and the return on equity for 2016 of 19.97%, among the highest in the industry.

We generated a total income of Rs.15.14 billion in 2016, up by 41% from 2015. This achievement was supported by our business model which generated a balanced mix of net interest income and non-interest income across the business lines allowing us to deliver consistent performance amidst volatile times. Our fee and commission income grew by 36% in tandem with interest income in spite of the decline in trade volumes in the economy.

We also maintained our net interest margin (NIM) at 3.87%, above the industry average which hovers around 3.6% due to our swift asset and liability re-pricing that was carried out with minimum adverse impact on our customers.

In the meantime, we also re-calibrated our portfolios from low margin assets in to high margin assets enabling us to maintain our margins irrespective of the circumstances.

As a result, our net interest income grew by a 16.93% to Rs.4.63 billion.

Quality Portfolio Growth

Your Bank ended the year with a total deposit base of Rs.91.46 billion, up by 17.71% from 2015 amid stiff competition for consumer deposits.

The industry observed a shift in low cost deposits to high cost medium term deposits in response to rising interest rates. This in turn puts pressure on our NIM though our timely strategies helped us protect the Bank against any significant shrinkage of margins.

WE RATIONALISED OUR STAFF AND PROCESSES AND RE-DEPLOYED THE EXCESS STAFF IN TO AREAS WHERE THEIR NEED WAS FELT THE MOST, THUS SIGNIFICANTLY IMPROVING THE TURNAROUND TIMES AND EMPLOYEE PRODUCTIVITY.



We had the foresight to read the direction of interest rates much earlier than the rest, this allowed us to offer competitive rates for term deposits enabling us to yield an early harvest.

Meanwhile, we grew our Loans and Receivables book up to Rs.95.83 billion by the end of the year. While this is a clear moderation from what we observed during the preceding two years, it clearly reflects our responsiveness to regulator's calls for more restrained and cautious approach for credit growth as well.

Significant growth in our loans came from retail, SME, housing and credit cards which is in line with our retail focused growth strategy.

When we stepped in to the year we realised the gold-backed loans would become an area which could offer good prospects while serving the financial needs of a particular segment of our society. Hence, we swiftly allocated more of our resources, improved processes and controls throughout our network of 82 branches to deploy the funds into these much needed segments, particularly including fishing, agriculture and small businesses.

Meanwhile, our card base gathered further momentum during the year, recording an above average growth in the industry both in terms of number of cards as well as the outstanding balance. Being a late entrant, Pan Asia Bank now owns one of the fastest growing card bases competing neck and neck with even much older established players in the market. Our card business value proposition is second to none and our efforts to inculcate responsible personal finance at a time when unfettered consumerism has become the mainstay, was embraced by the public.

While growing our loan portfolio, we managed to maintain a high credit quality and both our gross and net non-performing advances ratio improved to 4.74% and 2.95% respectively.

This not only reflects our effective recovery efforts but also the underwriting standards and quality of our new loans.

Impairment for loans and other losses in 2016 also improved by 29.63% to Rs.528.11 million.

In 2016 our assets grew by 20.10% to Rs.129.45 billion. With this, we have increased the size of your Bank by more than 2.75 times during the last five years, which is significant by any measure.

Throughout the year we strived to strengthen our Balance Sheet with liquidity, adequate enough to support our envisaged growth along with the capital requirement enough to expand our risk weighted assets as well as to provide a cushion in withstanding shocks in times of stress.

We finished 2016 with a Tier I Core Capital Ratio of 8.37% and Tier II Total Capital Ratio of 11.40%.

While we are fully Basel II compliant, we are also well aware of the need to gradually increase these capital buffers in line with the forthcoming Basel III rules and are currently taking proactive steps toward its compliance.

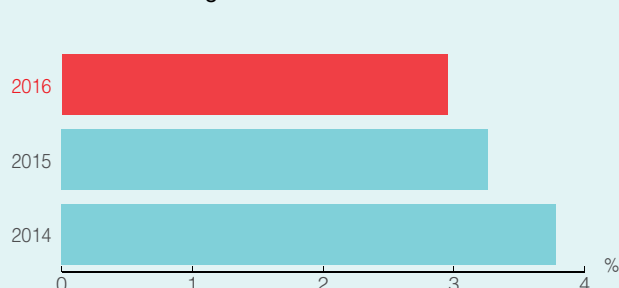
Our strong financial performance allowed us to further cushion our capital buffers by way of re-investing the profits in the Bank, laying a strong foundation for a robust future growth.

Funding our Growth

Due to challenging monetary conditions we have had to continuously explore alternative funding sources at a competitive cost to fund our asset growth.

As a result, in December we managed to secure USD 17.25 million, a 5-year funding line from Micro, Small & Medium Enterprises Bonds S.A. a leading European fund specialised in emerging markets and inclusive finance.

Net Non Performing Advances Ratio



WE MANAGED TO SECURE USD 17.25 MILLION, A 5-YEAR FUNDING LINE FROM MICRO, SMALL & MEDIUM ENTERPRISES BONDS S.A. A LEADING EUROPEAN FUND SPECIALISED IN EMERGING MARKETS AND INCLUSIVE FINANCE.



This is the second instance your Bank secured a medium term foreign funding line since we completed a USD 20 million green facility from the Global Climate Partnership Fund in 2015.

Further, in January 2017 the shareholders approved a proposal to raise over Rs.2.0 billion through a rights issue which will be finalised during the first quarter of 2017 in line with the capital augmentation plan agreed with the regulator.

Enhanced Efficiency

We continued to raise the bar for improved efficiency across all levels of the Bank and this is why we continuously challenge our costs and activities to cut the fat wherever it exists.

After a significant investment that we made in 2015 on a state-of-the art core-banking system and the treasury system, we continued to invest on workflow automation techniques to further streamline processes.

We rationalised our staff and processes and re-deployed the excess staff in to areas where their need was felt the most, thus significantly improving the turnaround times and employee productivity.

Branch expansion plans largely scaled down to give a considerable space to improve the performance of some of the existing branches which have been operating at sub-optima level. However, we opened three new branches in strategic locations and relocated two branches to offer higher convenience to our clients.

Amid all these factors, total overheads showed an increase while the Cost-to-Income ratio increased to 56.03% from 53.29% mainly due to increased staff expenses as we revised staff pay and benefits and increase in overhead costs due to inflationary pressure and new/revision of taxes.

At a time when the industry margins are thinning, the competition is becoming intense, and the requirement of

regulatory capital rises, we strongly believe the higher efficiency and productivity along with superior customer service are the only means to drive our performance and stay ahead of the league.

Our People, the Flag Bearers

We believe that steadfast relationships go a long way in keeping our customers happy. We also believe that products and technology may not always fulfill the promises we make to our customers, but our people do. That is why we believe that a more competent and a motivated workforce will help us effectively deliver on our brand promise, 'The Understanding Bank'.

We have always believed that our staff is our most valued asset and we strive to make them want to stay with us in the long run. For this purpose we make every effort to provide them with competitive remuneration, professional training and development, leadership opportunities, other benefits, staff engagement activities and work-life balance programmes.

While we carried out staff training throughout the year based on a comprehensive training needs analysis, the high point during the year was the deployment of 182 internal trainers to ensure customer service aspects are deeply embedded in our network.

Further, as we are well aware of the dearth in talent in our industry, we took proactive measures to build a talent pool and plan for succession. The launch of the 'Stargate' internship programme to provide meaningful banking related qualifications through a tie up with the Institute of Bankers of Sri Lanka and introduction of talent pool are a few such initiatives.

AT A TIME WHEN THE INDUSTRY MARGINS ARE THINNING, THE COMPETITION IS BECOMING INTENSE BY THE DAY AND THE REQUIREMENT OF REGULATORY CAPITAL RISES, WE STRONGLY BELIEVE THE HIGHER EFFICIENCY AND PRODUCTIVITY ALONG WITH SUPERIOR CUSTOMER SERVICE ARE THE ONLY MEANS TO DRIVE OUR PERFORMANCE AND STAY AHEAD OF THE LEAGUE.



WE ALSO BELIEVE THAT PRODUCTS AND TECHNOLOGY MAY NOT ALWAYS FULFILL THE PROMISES WE MAKE TO OUR CUSTOMERS, BUT OUR PEOPLE DO.



Ours is Responsible Banking

As a socially responsible corporate citizen, Pan Asia Bank has always come forward in matters of national priority as we strongly believe in our obligations towards our fellow citizens and the environment around us.

The main theme of our Corporate Social Responsibility (CSR) activities in 2016 has been empowering our next generation through the power of knowledge. We initiated this project to address the root cause for the skills gap that our country is plagued with in marching towards a knowledge economy. Your Bank therefore identified 36 underprivileged schools scattered across the island and deployed staff in our branches to serve those schools with books, computers and other necessities in a meaningful way to fulfill their hunger for knowledge and empower them to win tomorrow's challenges.

Meanwhile, in 2016 Pan Asia Bank along with all its employees joined with 'Manusath Derana' to contribute in monetary terms and otherwise to our fellow citizens whose belongings and livelihoods were affected by the worst floods seen in our country in many decades.

On the sustainability front, we took steps to accelerate our transition towards a lower carbon economy and reduce the impact on climate change of all our activities. To this end, the development of a comprehensive 'Environmental & Social Policy and Risk Management Procedures' was a significant achievement recorded during 2016.

Besides, we significantly reduced the use of paper in our day-to-day activities by moving in to workflow automation and focused our attention on energy saving technology for lighting our offices.

While these are amongst a few of the measures that we have already taken, going forward we look to leverage technological advancements and sustainable energy to further cut our carbon footprint to become greener in the years to come.

Recognitions

Our business, financial and overall performance earned us both local and global recognition in 2016.

Your Bank became the overall winner for its excellent business and financial results among all corporates in the country at the 2016 diet of the National Business Excellence Awards organised by the National Chamber of Commerce of Sri Lanka. This can be considered as the highest ever local recognition received by Pan Asia Bank in its history. Besides this, we also received the runner-up award in the Banking sector competing against many larger and older players in the industry.

Meanwhile, the London based Global Banking and Finance Review recognised us as 'The Fastest Growing Commercial Bank in Sri Lanka' for the third consecutive time and our product 'Daskam' received the award for 'the Most Innovative Banking Product'.

These awards are a clear testament to our excellence in performance and managing a good banking business. They provide us with more vigour to understand your financial needs and serve you better.

Looking to the Future

While we expect more challenges in the macro-economic conditions in 2017 especially with tax structure changes which are yet unclear, we remain confident and open to the Government's efforts in rebalancing the Sri Lankan economy to a more open polity characterised with free trade and investments led by the private sector and foreign investments.

We welcome the regulatory reforms, including the new Basel III rules and reforms to the Banking Act announced by the Central Bank of Sri Lanka (CBSL) in its road map for the Banking sector as we firmly believe that a well regulated financial system is the bedrock of a stronger financial system in a country.

We are now moving to take on the third year of our three year strategic plan and we are happy that the Bank has either achieved or exceeded most of those targets that we set out in our strategic plan.

WE WILL ALSO LOOK TO DIVERSIFY OURSELVES TO OFFER THE WIDE-RANGING FINANCIAL NEEDS WHEN OUR FINANCIAL AND CAPITAL MARKETS ACHIEVE MORE BREADTH AND DEPTH IN TIME TO COME.



WE TOOK STEPS TO ACCELERATE OUR TRANSITION TOWARDS A LOWER CARBON ECONOMY AND REDUCE THE IMPACT ON CLIMATE CHANGE OF ALL OUR ACTIVITIES. TO THIS END, THE DEVELOPMENT OF A COMPREHENSIVE ‘ENVIRONMENTAL & SOCIAL POLICY AND RISK MANAGEMENT PROCEDURES’ WAS SIGNIFICANT ACHIEVEMENT RECORDED DURING 2016.



Based on the strong platform that we have laid, we are now about to embark on our next phase of the planning process to design the future strategy for the next three years.

Our new strategic plan for 2018-2020 will map out a clear direction for us to make faster and stronger progress in a sustainable manner and thereby seek to make our mark in markets where we see significant potential.

We would like to fill those gaps as we have always done in the past while creating the financial inclusion among largely overlooked segments in our society. This is our key priority as a responsible Bank. To this end, we will continue to strengthen our regional centers to become closer to people and SME businesses in those areas, while allocating more of our resources to serve them. With these steps, I am sure we will be well positioned in the years to come to play an active role in the Government's plans to develop the remote areas with industrial zones, which will ensure a more balanced contribution to economic growth.

In this journey, we will balance out our channel growth between brick-and-mortar branches and digital channels so that none will be left out in our quest towards creating inclusive banking.

Our investments in staff and building a talent pool will ensure that our staff is ready to serve those emerging financial needs as well as to take the future leadership when the situation demands.

We will also look to diversify ourselves to offer the wide-ranging financial needs when our financial and capital markets achieve more breadth and depth in time to come.

Operational excellence is part of our DNA and is a key driver in delivering value to our stakeholders. Therefore we will continue to apply this excellence at every level of our Bank, focusing on delivering better customer experience, minimising risk, increasing efficiency and finally creating a sustainable improvement of our banking business.

In Closing

This commentary would not be complete without commending the leadership and hard work of our Board of Directors for their knowledge, expertise and constant guidance which are integral to Pan Asia Bank's success.

We must also appreciate our shareholders who had the confidence in us during our journey and placed their trust in us which enabled us in generating such superior performance.

We wish to acknowledge the contribution from our former Chairman, Mr. Nimal Perera, who retired of the Board after serving his 9 year term and we also wish to express our gratitude to the present Chairman, Mr. Eshana De Silva for his valuable insights, the strategic direction and guidance in steering the Bank forward.

We are also thankful to our 'Team Pan Asia' without whom this success story could not have been a reality. You went out of your way to understand and fulfill our customers' needs, and to create long lasting relationships, a quality which is second to none.

We must also offer our thanks to our customers for allowing us to serve their financial needs and remaining with us through good and challenging times. We are also grateful to our regulator for their strong support and advice.

Thank you for giving us the opportunity to understand you better and serve you best at all times, earning and nurturing relationships which is integral for our future successes.

Lalith Jayakody
Acting Chief Executive Officer

Dimantha Seneviratne
Immediate Past Chief Executive Officer

Colombo, Sri Lanka

Board of Directors



① **Eshana De Silva**
Chairman



② **Harris Premaratne**
Deputy Chairman



③ **Mohan Abeynaïke**
Senior Director



④ **Tharana Thoradeniya**
Director



⑨ **A. A. Wijepala**
Director



⑩ **Jayaraja Chandrasekera**
Director



⑪ **Nihal Kekulawala**
Director



⑫ **Dimantha Seneviratne**
Director/
Chief Executive Officer
(Resigned w.e.f. 31.12.2016)



⑤ **Dimuth Prasanna**
Director



⑥ **Takashi Igarashi**
Director



⑦ **Toyohiko Murakami**
Director



⑧ **Sarath Rangamuwa**
Director



⑬ **Nayantha Fernando**
Company Secretary/
Deputy General Manager

1

Eshana De Silva

Chairman

Mr. Eshana De Silva joined the Board of Pan Asia Bank in July, 2008, and was appointed as Deputy Chairman in April, 2012 and as Chairman in September, 2016. He is the Chairman of Esna Holdings (Pvt) Ltd, Shermans Logistics (Pvt) Ltd, Shermans Transport (Pvt) Ltd, Hanjin Shipping Lanka (Pvt) Ltd and he is the Deputy Chairman of Esna (Pvt) Ltd and Director at Esna Power (Pvt) Ltd, Esna Exports (Pvt) Ltd., Sherman De Silva & Co. (Pvt) Ltd, Sherman Sons (Pvt) Ltd, Mc Marine (Pvt) Ltd, Esna Allied Enterprises (Pvt) Ltd, Mountbatten Lands (Pvt) Ltd, Plumbago Lanka (Pvt) Ltd, Esna International (Pvt) Ltd, Esna Lubricants (Pvt) Ltd, Integrated Shipping Agencies (Pvt) Ltd, Interocean Energy (Pvt) Ltd, and is the Honorary Consul General for Kazakhstan in Sri Lanka.

3

Mohan Abeynaike

Senior Director

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

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

2

Harris Premaratne

Deputy Chairman

Mr. Premaratne was appointed to the Board on 19th January 2017 as a Director and as Deputy Chairman on 25th January 2017.

Mr. Premaratne has over 40 years of banking experience with commercial banks.

Mr. Premaratne is an Associate of the Chartered Institute of Bankers of London. He served as Senior Deputy General Manager of Commercial Bank of Ceylon and was the Managing Director of Sampath Bank PLC from 2009 to December 2011. He also served as the Managing Director of Cargills Bank Ltd from 2012 to 2014. He held the position of Chairman of Sri Lanka Bankers Association. At present he is the Deputy Chairman of Softlogic Finance PLC and serves on the Boards of Softlogic Holdings PLC, Asiri Hospitals Holdings PLC, Asiri Surgical Hospital PLC, Central Hospital Ltd. and Softlogic Capital PLC.

4

Tharana Thoradeniya

Director

Mr. Tharana Thoradeniya has over two decades of senior management experience in multi- industry scenarios. He is a Group Director of Royal Ceramics Lanka PLC and CEO/Director of Rocell Bathware Ltd. He also sits on the Boards of several other public quoted and privately held companies in Sri Lanka, including Lanka Ceramics PLC, Lanka Walltiles PLC, Lanka Floortiles PLC, Hayleys Fibre PLC, Delmege (Pvt) Ltd, Vallibel Plantation Management Ltd, Dipped Products (Thailand) Ltd, Unidil Packaging (Pvt) Ltd and Fentons Ltd amongst others. Tharana has been credited as a proven business innovator across industries. A marketer by profession, Tharana was in the pioneering batch of Chartered Marketers of the Chartered Institute of Marketing (UK).

5

Dimuth Prasanna

Director

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

6

Takashi Igarashi

Director

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

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

7

Toyohiko Murakami

Director

Mr. Toyohiko Murakami is the Chief Executive of Bansei Group, Japan. Mr. Murakami has over 32 years of experience in managing various business fields consisting of Securities, Finance, Insurance, Real Estate. Mr. Murakami has a Bachelors Degree in Law from Kyoto University, Japan. Mr. Murakami joined Bansei Securities Co. Ltd. in November 2005 and was appointed as the Executive Vice President in February 2006 and as President & CEO of the company in June 2009. He is also the Chairman of Bansei Hoken (Insurance) Community Co. Ltd. which is a sister company of Bansei Securities Co., Ltd. Formerly, Mr. Murakami was with Zenkoku Hosho Co. Ltd. from November 2005 - February 2006 and as a Director of H.S. Securities Co. Ltd. from October 2000 to August 2005. He is the Deputy Chairman of Bansei Royal Resorts Hikkaduwa PLC and Chairman of Bansei Holdings LK (Pvt) Ltd, Director of Bansei & NWS Consultancy (Pvt) Ltd, Bansei Securities Finance (Pvt) Ltd and Vallibel Finance PLC.

8

Sarath Rangamuwa
Director

Mr. Rangamuwa is an experienced professional in Management, Finance, credit and Marketing with over 26 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 re-launch and also serves as a Director of Hunnas Falls PLC and Finance House Consortium (Pvt) Ltd. He is a former Director of Mercantile Investments PLC and also had stints at Central Finance and Ernst & Young.

A Fellow of the Chartered Institute of Marketing (UK), Mr. Rangamuwa is a member of the Institute of Management Accountants of (Australia) and has an MBA from the University of Southern Queensland.

He is also a Fellow of the Sri Lanka Institute of Credit Management and holds a Post Graduate Diploma in Finance Administration from the Institute of Chartered Accountants of Sri Lanka and a certificate in Foundation studies (Sports) from Unitec, New Zealand.

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

10

Jayaraja Chandrasekera
Director

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

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

9

A. A. Wijepala
Director

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

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

11

Nihal Kekulawala
 Director

Having qualified as a Chartered Accountant in the UK, Mr. Kekulawala joined the Banking sector in Sri Lanka. He counts over thirty years of results oriented financial management experience in the Financial Services Industry. He played a strategic role in the diversification of Hatton National Bank PLC, from commercial banking to investment banking, venture capital, stock broking and life/general insurance. He has held senior positions in the Hatton National Bank (HNB) including Chief Financial Officer, Senior Deputy General Manager - Strategy & Compliance.

After retiring from HNB, Mr. Kekulawala shifted his focus to consulting. Initially working in the Pacific Region, he worked as the lead consultant responsible for commencing commercial banking operations in the Solomon Islands. Thereafter, he functioned as the inaugural CEO of the Bank.

In addition to being a Fellow of the Institute of Chartered Accountants in England & Wales, he is also a Fellow of the Institute of Chartered Accountants in Sri Lanka and a Fellow of the Chartered Institute of Bankers in England. He holds an MBA from the University of Manchester.

He has undergone extensive Management and Leadership Development studies at Stanford University in USA, Institute of Management Development in Lausanne Switzerland, University of Melbourne in Australia and Asian Institute of Management in the Philippines. He is also a Past President of the Association of Professional Bankers Sri Lanka.

University. He is a Fellow of the Institute of Bankers, Sri Lanka (FIB) and a Post Graduate Diploma Holder in Computer System Design from the NIBM. He has successfully completed Authentic Leadership Programme at the Harvard Business School, Boston, USA.

A career Banker, Dimantha counts over 26 years' experience in the Banking industry. He has spent over 15 years with HSBC Group, holding Senior Management positions with HSBC in Sri Lanka, Thailand, Bangladesh and Saudi Arabia. Prior to that he was with Sampath Bank and Overseas Trust Bank. His last postings with HSBC were as the Chief Risk Officer, Thailand (2011-2013) and Chief Risk Officer Sri Lanka/Maldives (2008-2011). He held the position of Chief Risk Officer of HSBC Bangladesh in 2010. At HSBC, he was responsible for driving credit growth, strategy and governance in the respective geographies as a member of the country leadership team. His extensive experience spans over the areas of Corporate Banking, Retail Banking and Wealth Management, Credit Risk Management, Operations and Market Risk, Internal Control, Investment Banking and Finance. He is a Past President of The Association of Professional Bankers, Sri Lanka and currently serves as a Director of Lanka Clear (Pvt) Ltd and the Credit Information Bureau of Sri Lanka.

13

Nayantha Fernando

Company Secretary/Deputy General Manager

An Attorney-at-Law with over 25 years of experience joined the Bank as the Company Secretary in 1998 completing over 18 years in the Bank as the Company Secretary.

12

Dimantha Seneviratne

 Director/Chief Executive Officer (Resigned
 w.e.f. 31st December 2016)

Mr. Dimantha Seneviratne joined Pan Asia Bank as Director/CEO on 1st March 2014. He holds an MBA from the Postgraduate Institute of Management (PIM) of University of Sri Jayewardenepura and a BSc from the same



① Dimantha Seneviratne
② Nimal Tillekeratne
③ Lalith Jayakody
④ Kamoor Sourjah

⑤ S. Umakanthan
⑥ Richie Dias
⑦ Naleen Edirisinghe
⑧ Nayantha Fernando

⑨ Nalaka Wijayawardana
⑩ Lalith Fernando
⑪ Jeremy De Silva
⑫ Varuni Egodage



⑬ Rohitha Amarapala

⑭ Chandrika Ranawaka

⑮ Harsha Kurukulasuriya

⑯ Shiyan Perera

⑰ Upali Dharmasiri

⑱ Aruna Rathugamage

⑲ Rohan Thambirajah

1

Dimantha Seneviratne

Director/Chief Executive Officer (up to 31st December 2016)

Dimantha Seneviratne joined Pan Asia Bank as Director/CEO on 1st March, 2014. He holds an MBA from the Postgraduate Institute of Management (PIM) of University of Sri Jayewardenepura and a BSc from the same university. He is a Fellow of the Institute of Bankers, Sri Lanka (FIB) and a Post Graduate Diploma Holder in computer system design from the NIBM. He has successfully completed Authentic Leadership Programme at the Harvard Business School, Boston, USA.

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2

Nimal Tillekeratne

Chief Executive Officer (w.e.f. 3rd April 2017)

Nimal Tillekeratne counts almost 40 years of service in the Banking industry in Sri Lanka and overseas. He is an associate member of Institute of Bankers, Sri Lanka and a passed finalist of Executive Diploma in Business Statistics from University of Moratuwa. He was the former Senior Deputy General Manager of Sampath Bank PLC and was also in the Board of Sampath Information Technology Solutions Limited, a wholly owned subsidiary of Sampath Bank. His exposure to various disciplines in the Banking industry is quite wide spread having headed Operations, Branch Credit, Commercial Credit, Credit Card Business, Collections at Sampath Bank and spearheading its branch expansion initiatives adding 93 branches to its network in less

than 3 years. In particular he was instrumental in driving Sampath the Bank in the Northern and Eastern provinces of the country in difficult times.

He was also involved in setting up business processes at Cargills Bank for a short period and as the Senior Deputy General Manager of Seylan Bank PLC overseeing bank's Core operations, Trade Services, Remittances Business, Alternate Banking and self-service channels, Process digitisation efforts, in addition to setting up the Bank's branch expansion ambitions on course. He views process digitisation and automation as the way forward for quality customer service, cost control and growth in retail banking sphere.

3

Lalith Jayakody

Acting Chief Executive Officer (w.e.f. 1st January 2017)/Deputy General Manager - Chief Financial Officer

Lalith Jayakody has more than 38 years experience in managing finance functions in commercial banks including Peoples Bank and Sampath Bank PLC. He was the Finance Officer of Peoples Bank and has also worked as the Senior Deputy General Manager of Sampath Bank PLC and was also in the Board of Sampath Center Limited.

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

4

Kamoor Sourjah

Chief Operating Officer

Kamoor has over 24 years of banking experience with 3 foreign banks namely State Bank of India, Deutsche Bank AG and Standard Chartered Bank. Prior to joining Pan Asia Bank in 2008, he held the position of Director/ Head of Global Corporates at Standard Chartered Bank. He is an Associate of the Institute of Bankers of Sri Lanka (AIB), an Associate of the Association of Certified Chartered Accountants (ACCA) of UK and a Member of the Project Management Institute of USA with PMP status. He is also a Member of the Chartered Institute for Securities & Investment (CISI) UK and the Association of Professional Bankers - Sri Lanka.

5

S. Umakanthan
Deputy General Manager

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

6

Richie Dias
Deputy General Manager - Head of Treasury

Richie joined Pan Asia Bank from Barclays Bank, Dubai where he held the position of Head of Treasury Middle Office. He has also served Seylan Bank as Assistant General Manager - International Financial Services and prior to that Grindlays Bank Limited as FX Dealer. He has 36 years of banking experience and has developed skills among others, in Fundamental Principles of market, Liquidity and Operational Risk Management techniques. He holds a Post Graduate Executive Diploma in Bank Management from the Institute of Bankers, Sri Lanka and an MBA from University of North West, USA. He is a Member of Association of Professional Bankers - Sri Lanka.

7

Naleen Edirisinghe
Deputy General Manager - Retail and SME

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

8

Nayantha Fernando
Deputy General Manager - Company Secretary

An Attorney-at-Law with over 25 years of experience joined the Bank as the Company Secretary in 1998 completing over 18 years in the Bank as the Company Secretary.

9

Nalaka Wijayawardana
Deputy General Manager - Marketing and Card Products

Nalaka is a marketing specialist with over 23 years experience in the Banking sector in Sri Lanka and Canada. During his banking career, he has specialised in areas such as Strategic Marketing Planning, Brand Management, Corporate Image Building, Credit Card Marketing and Business Banking Product Management. Prior to joining Pan Asia Bank, he held the position of Product Manager for Cash Management Services at Canadian Imperial Bank of Commerce (CIBC) in Toronto. He has also previously worked as a Senior Marketing Officer at Sampath Bank PLC. He is a Fellow of the Chartered Institute of Marketing (FCIM) UK.

10

Lalith Fernando
Deputy General Manager - Chief Risk Officer

Lalith Fernando counts over 28 years of experience in banking which includes over 6 years in Corporate Management team of Bank of Ceylon. He holds a BSc Degree in Statistics from the University of Peradeniya, MSc in Management from the University of Sri Jayewardenepura and is a Fellow of the Institute of Bankers (FIB) Sri Lanka. Further, he has been admitted to the Designation of FRM by the Global Association of Risk Professionals, USA in 2012. Prior to joining Pan Asia Bank, he served at Bank of Ceylon as the Deputy General Manager/Chief Risk Officer for a period of more than 3 years.

11

Jeremy De Zilva

Assistant General Manager - Head of Internal Audit

Jeremy counts over 26 years of banking experience in both local and foreign Banks. His previous work experience includes Hong Kong and Shanghai Banking Corporation, ABN AMRO and National Development Bank. He is a veteran in banking operations and audit, and holds an MBA from the University of Southern Queensland Australia, a Post Graduate Executive Diploma in Bank Management and Diploma in Banking from the Institute of Bankers of Sri Lanka. He is a Fellow of the Institute of Certified Professional Managers and also a member of the Institute of Internal Auditors USA, Chartered Institute for Securities & Investment UK, Association of Business Executives UK and Institute of Bankers of Sri Lanka. He is currently a committee member of the Association of Professional Bankers - Sri Lanka and Vice President of the Bankers' Chief Internal Auditors forum Sri Lanka.

14

Chandrika Ranawaka

Assistant General Manager - Head of Corporate Banking

Chandrika counts over 22 years of banking experience in both local and foreign Banks. He has experience in all areas of Banking and is specialised in Corporate Banking with over 10 years experience in credit analysis and managing local as well as multinational global relationships. Prior to joining Pan Asia Bank, he has worked in Union National Bank - UAE, BNP Paribas - UAE and DFCC Bank. He holds an MBA from the University of Southern Queensland Australia and a Post Graduate Diploma in Business and Finance from the Institute of Chartered Accountants of Sri Lanka. He is also an Associate of the Institute of Bankers of Sri Lanka and Sri Lanka Institute of Credit Management.

12

Varuni Egodage

Assistant General Manager - Head of Legal

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

13

Rohitha Amarapala

Assistant General Manager - Head of Human Resources

Rohitha has over two decades of experience in Human Resource Management and Administrative functions in Government, Blue Chip and Multinational Organisations in Sri Lanka. He is a Fellow of both Institute of Personnel Management of Sri Lanka and Chartered Management Institute of United Kingdom. He holds an MBA from the University of Western Sydney Australia and National Diploma in Human Resource Management from IPM SL. He is a Licensed Practitioner in Psychometric testing systems adopted by Thomas International. He was conferred the prestigious 'Pride of HR Profession Award' for his contribution to the HR profession at the World HRD Congress held in Mumbai, India in 2010. He is currently serving as the Immediate Past President, of the Governing Council and Chairman of the International Affairs Committee of IPM Sri Lanka, the premier HR professional body in the country.

15

Harsha Kurukulasuriya

Assistant General Manager - Operations and Credit Administration

Harsha is a banker with proven track record of 28 years experience including overseas in branch banking, bank operations, credit evaluation, disbursement & follow-up, Process Development & Re-engineering, customer relationships, efficient management of resources, work ethics and regulatory compliance, operational risk and market risk etc. He joined Pan Asia Bank on 1st August, 2011 as a Senior Manager - Branch and served the Bank in an exemplary manner. He holds an MBA from the American University, USA and also an Associate of the Institute of Bankers of Sri Lanka.

16

Shiyan Perera**Assistant General Manager - Leasing and Retail Asset Products**

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

17

Upali Dharmasiri**Assistant General Manager - Recoveries**

Upali counts over 29 years of experience in banking which includes over 12 years at Senior/Corporate Management capacity. He holds Economic (Special) Degree from the University of Sri Jayewardenepura and successfully completed a Strategic Management Programme at the National University of Singapore (NUS). He is a Life Member of the Association of Professional Bankers Sri Lanka. Prior to joining Pan Asia Bank he served at Sampath Bank PLC as the Assistant General Manager - Recoveries.

18

Aruna Rathugamage**Assistant General Manager - Chief Information Officer**

Aruna counts over 20 years of IT experience in banking which includes over 11 years at Senior/Corporate Management level. He holds a Masters Degree in

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

19

Rohan Thambirajah**Assistant General Manager - Branch Network and SME**

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

Senior Management



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1. **Takura Abhayasinghe**
Head of Business Banking and Branch Sales
2. **Nimal Ratnayake**
Head of Branch Credit
3. **Umaharan Jeganathan**
Head of Consumer and Credit Cards Credit
4. **Sameera Senerath**
Head of Central Sales
5. **Thilani Peiris**
Head of Colombo South Area
6. **Anil De Silva**
Senior Manager - Branch Credit
7. **Rajitha Silva**
Senior Manager - Administration
8. **Prakash Selvarajah**
Senior Manager - Branch Operations
9. **Jehan Perera**
Senior Manager - Trade Operations
10. **Udaya Thuduwwatta**
Head of Margin Trading
11. **Thushara Suraweera**
Senior Manager - Branch
12. **Pali Jayasekera**
Senior Manager - Information Technology
13. **Kapila Peiris**
Senior Manager - Internal Audit
14. **Anuradha Gamage**
Senior Manager - Branch
15. **Arun Beadle**
Area Manager - North & East
16. **Javana Atukorala**
Senior Manager - Compliance
17. **Milroy Perera**
Area Manager - North Western and Central
18. **Hiran Perera**
Area Manager - Colombo North
19. **Chrysanthus Peiris**
Area Manager - Southern
20. **Suranga Fernando**
Senior Manager - Finance
21. **Renuka Kurukulasuriya**
Senior Manager - Branch
22. **Thushari Malalgoda**
Senior Manager - Planning and Research
23. **Chamath Atukorale**
Senior Manager - Treasury Middle Office
24. **Renuka Premakumar**
Senior Manager - Branch
25. **Sanjaya Weerasekera**
Senior Manager - Credit Risk
26. **Harsha Samaranayake**
Senior Manager - Branch Credit
27. **Lourdette Wijeyanathan**
Senior Manager - Corporate Banking
28. **Aravinda Rodrigo**
Senior Manager - Corporate Banking
29. **Anushka Wimalasena**
Senior Manager - Branch
30. **Rangith Rajendran**
Senior Manager - Credit Risk
31. **Yohan Ebell**
Area Manager - Central
32. **Senaka Gooneratne**
Area Manager - Bazaar
33. **Chamila Abeysooriya**
Senior Manager - Card and Personal Loan Collections and Recoveries

The macro-economic context under which the Banking sector operated in 2016 was extremely volatile and uncertain. Some of the salient developments and their resulting impact on the sector and the economy are as follows;

Beginning of the Tightening Cycle & Impact on Bank Credit

Having pursued an extremely easy monetary policy in 2015, the authorities were forced to rein in the overheating of the economy from the dawn of 2016, which resulted an easy bank credit top of Rs.692 billion in the preceding year creating a macro-economic instability.

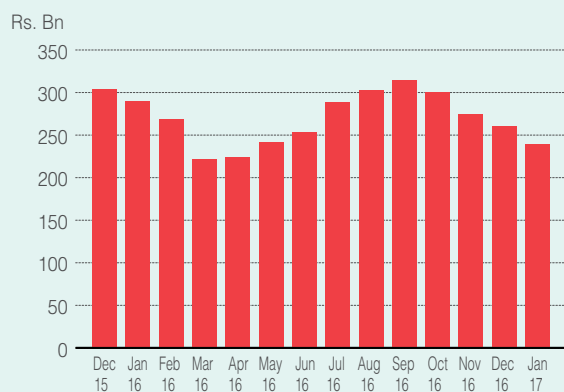
This created a general cycle of boom in imports fueled by this suchly earned bank credit over and above the deposits raised creating an instability in the monetary sector and the Central Bank of Sri Lanka (CBSL) having to defend the falling Rupee by way of selling its foreign exchange reserves.

This was further exacerbated by the sell offs in the foreign holdings of the government securities nearing a Balance of Payment (BoP) trouble for the economy.

Hence, CBSL began the year 2016 by raising its statutory reserves ratio for Banks by 150 basis points to 7.50%. This is on top of the 70% Loan-to-Value (LTV) ratio imposed on vehicle financing in December 2015.

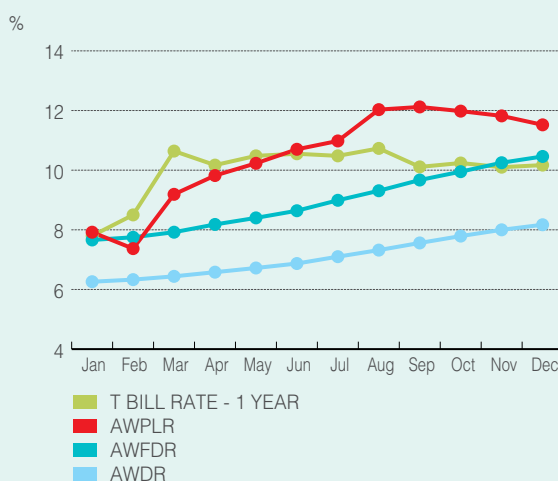
Thereafter, CBSL raised its key policy rates i.e. Standing Lending Facility Rate (SLFR) and the Standing Deposit Facility Rate (SDFR) by 50 basis points each in February and July as preemptive steps to rein in the inflation and the private sector credit growth which was running too high. The key policy rates for Lending and Deposits at the year end stood at 8.5% and 7.0% respectively.

Sri Lanka Government Securities Holding by Foreigners



Source: Central Bank of Sri Lanka

Interest Rate Structure



Source: Central Bank of Sri Lanka

This pushed up both lending and the deposit rates in the banking industry. The Average Weighted Prime Lending Rate (AWPLR), the rate at which the prime customers borrow from the banking sector rose by 400 basis points to 11.52% while Average Weighted Fixed Deposit Rate (AWFDR) rose by 300 basis points to 10.46% during last 12 months.

These measures resulted in liquidity constraints in money markets during most of the months and as a result there was intense competition for mobilising customer deposits.

However quite puzzling was the fact that the growth in private credit showing little response to these changes in the interest rates.

According to the latest data available, the private credit has grown by as much as 21.60% in 2016. The total private sector credit soared to Rs. 754 billion in 2016, the highest recorded so far in a single year. However there is a general lag of monetary policy transmission between 12 to 18 months.

Meanwhile, the headline inflation which peaked to 5.8% in July cooled down to 4.5% by the end of the year, before heating up again in January 2017.

Austerity Measures and the Spillovers

As result of the near Balance of Payment crisis and the portrayed debt crisis, the government entered in to a 3 year economic stabilisation programme with the International Monetary Fund (IMF) which involves hosting of fiscal reforms, mainly aimed at raising the State revenues, rationalisation of State expenses, targeted social welfare payments and State owned enterprise reforms.

As a result the government had to resort to fiscal austerity measures by way of higher taxes - both corporate and value added tax, among other measures.

This took a toll on the people's disposable income with a little dent on the consumer demand which drove the demand for private credit and the economic growth in 2016.

This was felt across the banking sector as the demand for consumer credit moderated although the overall credit increased at a higher pace.

Challenging External Sector

As result of the limited intervention in the foreign currency markets to defend the rupee from excessive volatilities, the CBSL lost just under USD 1.0 billion in its foreign exchange reserves while still seeing a 3.9% weakening of the Rupee against the United States Dollar in 2016. This is much lower than the amount it lost in its reserves in 2015 of USD 2.1 billion and 9% depreciation in the Rupee.

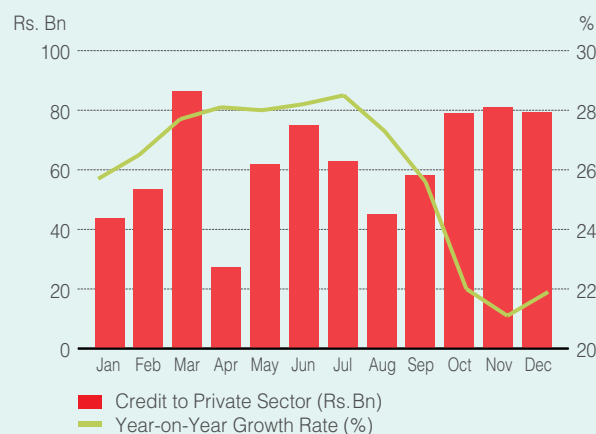
During the latter part of 2016, the CBSL allowed more flexibility in managing the currency - a positive policy measure which will continue going forward as the CBSL indicated it was not sensible to defend the Rupee through Dollar. Meanwhile the export earnings also decelerated as a result of the global commodity market slump while the imports rose.

This was exacerbated by the foreign outflows from the government securities market. The net foreign outflow in year 2016 amounted to Rs.43.6 billion.

Meanwhile 2016 also was marred by weak foreign financing flows as the latest data showed the direct foreign investments being down by as much as 54% to USD 450 million. Long term loan inflows to the government was also narrowed by 10.6% to USD 563.3 million during the 7 months to July 2016. Meanwhile the outflows from foreign currency loans, securities and deposits also surpassed USD 6.0 billion in 2016.

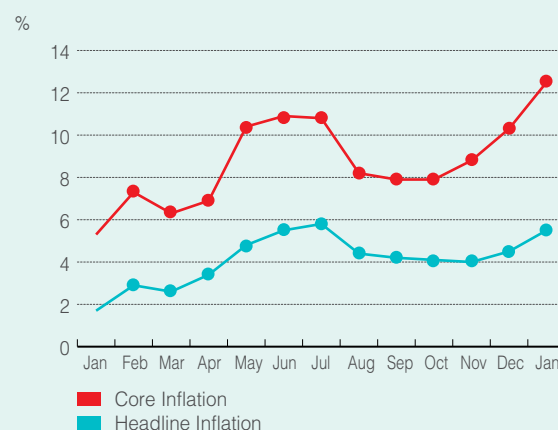
Further external pressure is expected in 2017 as well unless strong foreign inflows materialise as expected but a positive outlook on the major economies in the world led by the United States could bode well for Sri Lankan exports.

Private Sector Credit Growth



Source: Central Bank of Sri Lanka

Inflation



Source: Central Bank of Sri Lanka

Pan Asia Bank closed the financial year 2016 in style surpassing the previous records. In fact the financial performance for the year ended 31st December 2016 was so far the best it achieved in its 21 year history.

This section will unravel these financial achievements in detail which provide clear testament to the fact that we successfully delivered our brand promise, 'The Understanding Bank'.

Record Profit

Reaching yet another milestone in 2016, Pan Asia Bank made a pre-tax profit of Rs.1.81 billion for the financial year ended 31st December 2016, recording a growth of 17.21%.

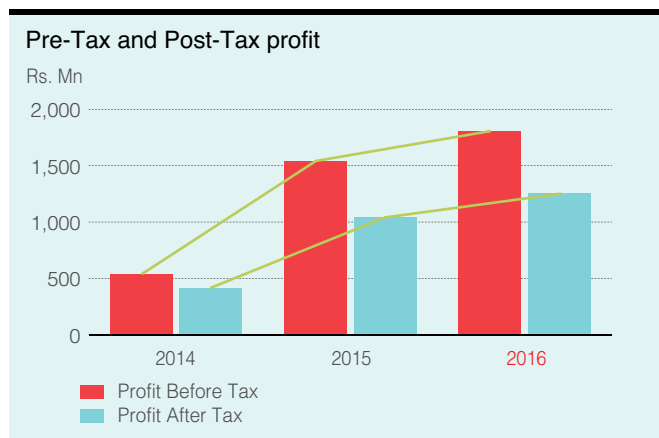
The profit for the year rose by a commendable 20.30% to surpassing Rs.1.25 billion mark. This translated to an Earnings per Share of Rs.4.24 as opposed to Rs.3.53 per share a year ago.

The record profit in 2016 was possible amid extremely challenging industry conditions due to proactive measures taken by the bank in re-pricing the assets as a result of the early diagnosis of the market conditions.

The successful performance was also a result of the bank's judicious re-calibration of asset and liabilities in to more remunerative areas.

As a result, the bank was able to maintain the margins above the industry average throughout the year albeit some pressure mounting on the spread. The bank's Net Interest Margin (NIM) stood at 3.87%, above the industry average of 3.6%.

These strategies enabled the bank to off-set the impact of the relatively slow growth in the bank's loans and advances portfolio which resulted from the monetary and fiscal tightening measures aimed at curtailing private credit growth.



RoE, an Industry Outlier

The Return on Equity (RoE) which measures the return generated towards the shareholders, a widely used performance matrix in the banking industry stood at 19.97%, above the industry average of 17.30%. Pan Asia Bank remains among the few banks which have a RoE at around a 20% level.

Even though the forthcoming rights issue might dent the ratio in 2017, the deployment of additional capital will enable the bank to expand its advances portfolio to record much higher earnings leading to higher RoE in the medium term.

Core Banking Performance

Net Interest Income

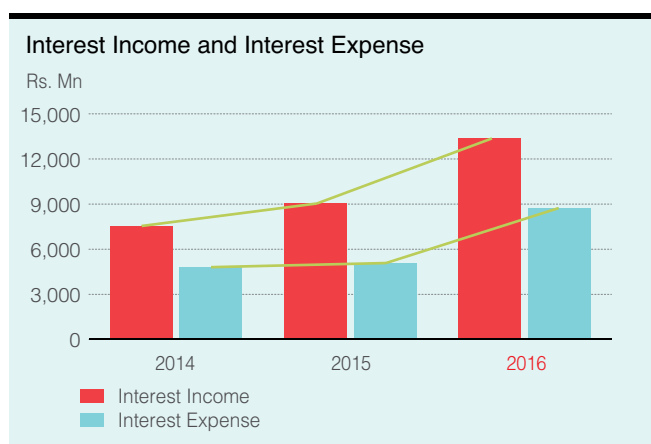
The bank's principle source of income, the Net Interest Income (NII) rose by a modest 16.93% to Rs.4.63 billion.

This is despite the faster rise in interest expense over the rise in the corresponding interest income. This is due to higher cost of funds which had to be borne by the bank on account of the rising deposit costs consequential to 150 bps hike in Statutory Reserve Ratio in January 2016 followed by 100 bps upward revision in policy rates for lending and borrowing.

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

The interest income rose by 47.88% to Rs.13.37 billion while the interest expense rose by 72.04% to Rs. 8.73 billion.

The NII constitute of slightly over 70% of the total operating income of the bank.



Non-Interest Income

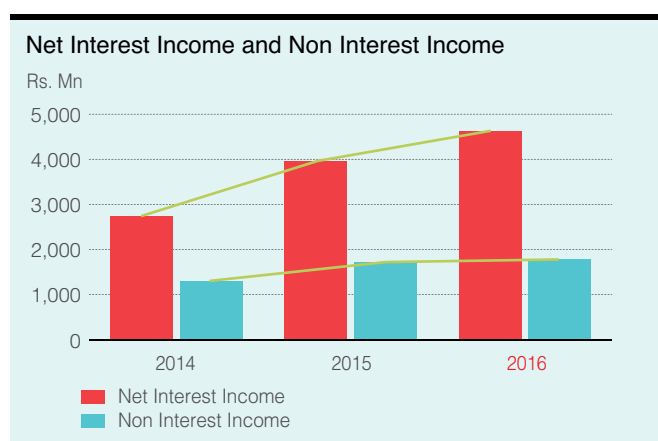
Fee and Commission Income

Net fee and commission income delivered its role as a crucial buffer to make up for the narrowing margins. This was evidenced from a very strong growth recorded by the net fee and commission income during 2016 albeit some areas under the fees and commissions being challenged.

The total net fee and commission income rose by 35.74% to Rs. 1.11 billion. This was mainly supported by the credit related commission income despite the growth in loans moderating during the year.

The trade and remittance related commission income however was adversely affected by the slowdown in import and export trade in 2016, predominantly the fall in vehicle imports. Vehicle imports slowed down significantly due to both the 70% Loan- To-Value ratio imposed, higher duty structure and the higher interest rates which turned away the many likely customers who had a dream of their own vehicle.

Nevertheless the bank consciously diversified its trade income portfolio by way of forging new relationships with clients with diverse businesses and these efforts will continue in full steam in a bid to have a well diversified trade portfolio in order to ensure the bank could withstand cyclical volatilities in the future.



Net Trading Gains and Other Operating Income

The Bank's Net Trading Gains consisting of realised and unrealised gains from government securities, unit trusts, equities and financial derivatives saw its net gains falling by a moderate 9.50% to Rs. 275.10 million in 2016 from Rs. 303.96 million a year ago.

This is mainly due to the losses from the government securities portfolio in response to the rise in yields of the treasury bills and bonds in 2016. The total trading gains from government

securities dropped to Rs. 81.55 million in 2016 from Rs. 143.09 million in 2015. However, the gains from units and equities increased by 69.94% to Rs. 105.59 million in 2016 as a result of increased investments.

Other operating income show a sharp drop of over 40% in 2016 predominantly due to the steeper fall in the foreign exchange gains.

The total non interest income consisting of net fee and commission income, net trading income and other operating income grew marginally from Rs. 1.67 billion to Rs. 1.71 billion in 2016.

Provisions for Loan Losses

Meanwhile the provisions made for possible loan losses markedly decreased in 2016 as provisions on individually significant customers declined significantly.

Individual impairment charge declined to Rs. 482.27 million from Rs. 761.01 million in 2015 as there were recoveries from some of the hardcore non-performing customers.

As a result the total impairment charge fell to Rs. 528.11 million from Rs. 750.53 million last year.

Meanwhile on a further positive note, the bank's asset quality continued to improve with both its gross and net non-performing loan ratios markedly falling.

The gross non-performing loan ratio improved to 4.74% from 4.84% a year ago and the net non-performing loan ratio too followed suit by falling to 2.95% from 3.26% a year ago. This is mainly due to the rigorous recovery efforts deployed throughout the year with a strong leadership and the underwriting standards.

Operational Efficiency

The total operating expenses rose sharply by 18.24% to Rs. 3.52 billion in 2016 predominantly due to increase in staff related expenses and other overhead expenses due to impact of tax hikes and inflationary pressures. As a result, the cost to income ratio, the key efficiency matrix in the banking sector deteriorated to 56.03% in 2016.

The personnel expenses rose by 16% to Rs. 1.61 billion as a result of annual salary increments/revisions and increased investment on training and development. Meanwhile the other operating expenses rose by 20% to Rs. 1.91 billion due to higher premises, administration and business promotional expenses.

Meanwhile during 2016 the bank engaged in some business process re-engineering and staff rationalisation activities

PAN ASIA BANK GREW ITS ASSET BASE BY OVER 2.75 FOLDS OR RS. 82.45 BILLION DURING THE LAST FIVE YEARS DEMONSTRATING THE FASTER GROWTH TRAJECTORY IT IS BEING PURSUED IN THE RECENT TIMES.

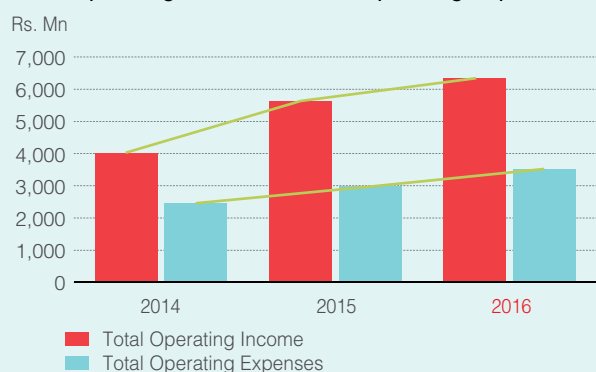


to improve efficiency and productivity of the staff after the implementation of the new core-banking system in 2015. Hence the staff rationalisation programme saw to some of the less value adding functions/departments being discontinued and re-deploying those staff across where the staff is required. This exercise also helped the bank to source human resources from within than looking elsewhere to fill in the internal vacancies saving much of the cost.

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

Meanwhile in extending the bank's network of branches, the bank took a conscious decision to strike a balance between high capital incentive brick-and-mortar branches and digital channels. This made possible for the bank to push the existing branches for higher performance while penetrating the market via the emerging digital channels which has been both cost-effective and well targeted. These multi-pronged tactics enabled the bank to keep a close tab on its expenses during the last three years albeit a pick-up shown in 2016.

Total Operating Income vs Total Operating Expenses



Effective Tax Rate Unchanged Despite Rate Hikes

Value Added and Nation Building Taxes on Financial Services increased by 33.55% during the year mainly driven by the increase in operating profits coupled with the hike in the VAT rate applicable for over 4 month period in 2016. As a result, VAT and NBT on financial services charge of the Bank rose to Rs. 483.26 million. The Sri Lankan banking sector is now saddled with probably the highest effective tax rate by any industry.

Meanwhile the bank's total effective tax remained at 45% level in 2016 due to effective tax planning strategies adopted by the bank despite the tax rate hike for VAT on Financial Services.

Financial Position

Despite the slowdown in the growth in loans and advances during 2016, the bank managed to expand its asset base by commendable 20.10% bringing the total asset base up just under Rs.130 billion.

In effect, Pan Asia Bank grew its asset base by over 2.75 folds or Rs. 82.45 billion during the last five years demonstrating the faster growth trajectory it is being pursued in the recent times.

This is whilst maintaining a better asset quality which has been improving year by year. What is also noteworthy in this journey is the fact that the bank diversified its composition of the assets and liabilities in the balance sheet. This was done by way of tapping in to non-traditional funding sources going beyond the traditional vanilla flavoured deposits which in turn was distributed across a well diversified lending mix across Retail, Small and Medium Enterprises and large and mid-sized Corporates.

Further the bank raised mid-term foreign funding amounting to USD 17.25 million from Micro, Small and Medium Enterprises Bonds S.A., a European fund specialised in emerging markets and inclusive finance in 2016.

Modest Loans and Receivables Growth

In response to the monetary and fiscal tightening measures taken by the authorities throughout 2016, the bank's loans and receivables growth moderated to 14% level. However, the loans and receivables growth in 2016 was a sharp decline from 36% growth recorded during 2015 under credit conducive policies in the economy.

What is noteworthy, during 2016 was, the fact that the re-calibration of the portfolio towards high yielding assets in a bid to withstand the margin pressure stemming from the rising cost of deposits. Therefore, the year saw the growth in credit cards, gold-backed loans, consumer loans and SME loans above the rest of the portfolios in the mix.

THIS WAS DONE BY WAY OF TAPPING IN TO NON-TRADITIONAL FUNDING SOURCES GOING BEYOND THE TRADITIONAL VANILLA FLAVOURED DEPOSITS WHICH IN TURN WAS DISTRIBUTED ACROSS A WELL DIVERSIFIED LENDING MIX ACROSS RETAIL, SMALL AND MEDIUM ENTERPRISES AND LARGE AND MIDSIZED CORPORATES.

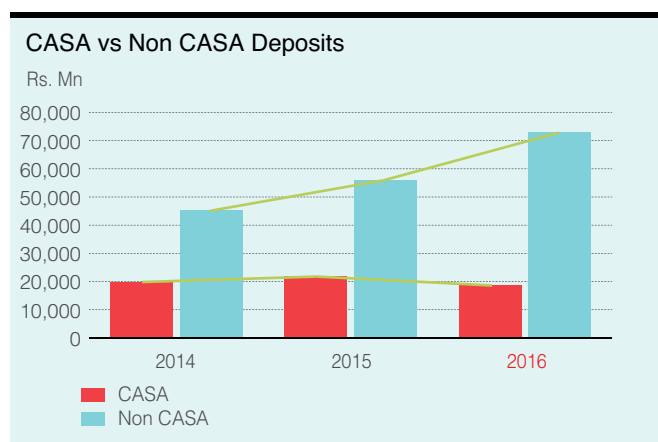


Meanwhile the bank forged new corporate relationships mainly with trade finance business as a way to increase both corporate and trade business with a view to increase fee based incomes.

Customer Deposits

Despite the intense competition seen throughout the year, the bank managed to increase its deposit base by almost 18% to Rs. 91.46 billion.

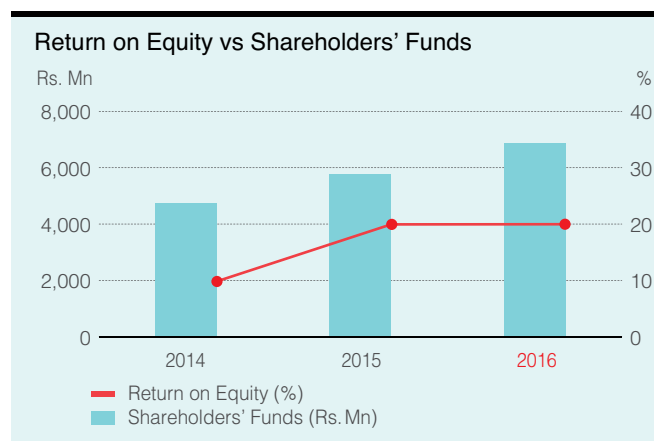
However the cost of deposits went up significantly because of the high cost medium term deposits rose much faster while the low cost, Current and Savings Accounts (CASA) took a dip.



Shareholder Funds, Capital Adequacy & Liquidity

The total shareholder funds rose by 19.03% to Rs. 6.87 billion from Rs. 5.77 billion a year ago.

Further the Net Assets Value per Share rose to Rs. 23.29 from Rs. 19.57 a year ago.



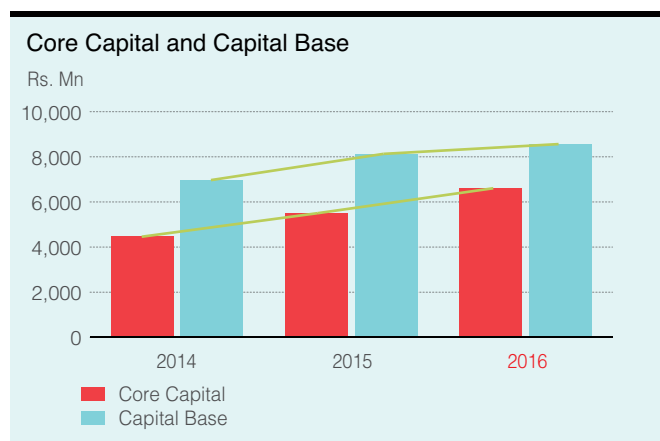
The Bank's capital adequacy levels remained at healthier levels above the regulatory minimum level albeit the Tier II capital coming under pressure.

During the year the Tier I Capital Adequacy Ratio (CAR) improved to 8.37% from 7.82% a year ago due to relatively slow asset growth compared to the strong internal capital generation during the period under review.

Meanwhile the bank is also in the process of raising equity over Rs. 2.0 billion via a rights issue which will issue one new ordinary share for every two existing ordinary shares held. With the rights issue proceeds being received during the 1Q'17, the Bank will not only see its Tier I CAR further increasing but also will be in line with the capital augmentation plan approved by the Monetary Board of CBSL.

However, the Bank's total capital adequacy weakened slightly to 11.40% from 12.30% last year due to the periodic discounting of the outstanding subordinated debts issued earlier. Further the bank also did not make any new subordinated debt issues during the year if otherwise would have increased the total capital.

Meanwhile the bank is also acting proactively to stay in line with the additional capital buffers that are required under the new Basel III accord which will come in to full effect from 2019 onwards.



Meanwhile the bank's statutory liquidity requirements remained above the minimum stipulated levels during the year albeit coming under pressure. However, timely measures taken in mobilising the deposits and raising debt funding ensured the bank stays rich with liquidity.

The Statutory Liquid Asset Ratio of the Bank at the year end for Domestic Banking Unit and Off Shore Banking Unit stood at 28.03% and 38.82% respectively.

The Bank also assessed for Liquidity Coverage under Basel III requirements as at the year end, our ratios are well above the minimum regulatory requirements.

The following section analyses how the macro-economic conditions could turn out affecting the banking sector and the economy as a whole during 2017.

This section will provide important insights on the crucial developments that are unraveling in the Sri Lankan economy for anyone who closely analyses the Sri Lankan banking industry and frame an informed opinion and also to make investment decisions.

Subdued Credit Growth

It is widely expected that the private credit growth to slow down in 2017 in response to the monetary tightening measures that were already taken during 2016 as there's a general monetary policy lag between 12 to 18 months in filtering through to the real economy.

However, a steeper decline in demand for credit is not expected due to reasons that will be analysed below. Nonetheless what is largely expected is that the growth in private credit to descend towards around 12% to 15% from the current level of over 20%.

In 2016, private credit growth showed little response to the Central Bank of Sri Lanka (CBSL) monetary tightening measures by way of higher statutory reserves ratio and 100 basis point cut in rates. The private credit reached an all time high of Rs. 754 billion in 2016 irrespective of these measures. However it is expected with the lagged effect coming in to play from 2017 onwards coupled with higher Loan-to-Value ratio on vehicles could raise both short and long term rates and as a result the demand for credit could become milder.

Further, the monetary tightening in view of continued foreign outflows from the government securities market and the higher inflation already reported under the revised base year also can not be ruled out. According to the CBSL data, foreigners have sold USD 177 million or Rs. 26.6 billion worth of government securities during January 2017 alone.

Meanwhile the core inflation, the underline inflation in an economy reached a multi year high of 7% in January 2017.

Consumer Credit to Support Banks' Loan Book

Despite the lackluster demand for private credit that could prevail in 2017, it is doubtful the consumption credit would show much respite to the higher rates and toughened credit conditions even during 2017. Hence, the demand of credit for consumption could still fuel the demand for bank credit and thereby their loan book growth.

This is predominantly because of the emerging diversified financial requirements of the aspirational middle income class in Sri Lanka who are generally less sensitive towards rates.

Also they see more utility in present consumption even through borrowed money than saving a considerable chunk for the future.

Further, now that this segment has got used to a lifestyle which they hardly can adjust towards a more economical and frugal type of living, they are forced to continue in their spending irrespective of the economic cycles, unless it is recession.

This has further exacerbated by the unfettered consumerism by this generation and to fulfil these needs, they have nothing but to resort to borrowed money irrespective of the interest rate.

Therefore, it is expected the consumption demand to be continued unabated and thereby the demand for consumption related credit, particularly in areas such as credit cards and personal loans.

Gold-Backed Lending, is another area which shows much potential this year as this is the easiest form of access to credit by mostly the farmers, fishing communities, small business owners and others in managing their working capital cycles when faced with tougher economic conditions.

Therefore, it is anticipated some growth in credit cards, gold-backed loans and personal loans albeit at a lesser degree to drive up the demand for bank credit even during 2017.

Macro-Prudential Limits on Credit Growth

It also cannot be ruled out some macro-prudential limits on select sectors by way of Loan-to-Value ratios unless the private credit growth decelerated to a desired level by the CBSL.

The CBSL already slapped similar controls on the vehicle financing industry, which is welcoming move to safeguard the country from a lot of socio-economic issues that are already seen. Therefore, unless the credit conditions cooled down as expected, similar macro-prudential limits on other sectors such as housing etc. cannot be completely ruled out as a temporary measure to avoid possible asset bubbles as preemptive measures by the Monetary Board of CBSL.

Directed Lending Could Hurt Asset Quality, Margins

The directed lending to priority sectors by the government which was announced by the budget and then gave effect to by the CBSL could have some negative implications as it takes away the discretion of the banks to decide on their portfolio allocation based on risk assessment and credit analysis.

The CBSL in February 2017 directed the banks to grant at least 10% each of their new loans to specific sectors spanning, small and medium enterprises, exports, tourism activities, agricultural

activities and another 5% each to women and youth. While the need to direct our resources to priority sectors of the economy is important as a national priority, this could however squeeze credit to fast growing sectors, generate bad loans and lead to widespread credit mis-allocations.

Nevertheless, this directive is not expected to have many negative implications on the Bank as it has already lent adequately to these segments and the Bank is at the forefront in allocating its resources to these priority segments of our society as it believes much in creating financial inclusion.

Basel III Capital Requirements

While the banking sector has already met the CBSL enhanced minimum capital requirements with few exceptions, the sector is also building their regulatory capital to be in line with the higher capital adequacy requirements set out in the Basel III accord along with additional capital buffers.

Some banks who were lagging behind the CBSL stipulated minimum capital requirement have already announced that they are taking some tangible steps to bring their core capital levels up to the requirement during this year to be in line with the capital augmentation plans agreed with the regulator.

In terms of the higher capital adequacy requirements under the Basel III accord, the Banks are expected to be well equipped to maintain the capital, liquidity and leverage requirements when the Basel III accord comes in to full effect from early 2019.

Fiscal Uncertainties

On the fiscal side, uncertainties abound on the newly proposed taxes and levies on the banking services. This uncertainty over taxes and levies could prevail until the regulator specifies of how those would apply and operate.

For instance the proposed financial transaction levy and the cash transaction fee if imposed could have a severe blow to banks' customers as some of those fees will be proposed to be transferred to the clients. This would not bode well for creating a fully banked society and creating financial inclusion that the government is so keen to establish.

Further the impact of the proposed abolishing of notional tax credit, cessation of tax exemptions for investments in unit trust and listed corporate debt securities could dent the bottom-lines further due to higher tax liability at a time when the demand for credit is squeezed.

The year 2016 saw Pan Asia Bank further building on the strong fundamentals that were laid during the previous years to maintain its robust growth momentum despite the challenging macro-economic conditions that dominated the year.

As explained under the Macro Economic Review, the tight monetary and fiscal conditions and lack of liquidity that prevailed through most part of 2016 limited the consumption and investment activities, which to an extent curtailed the business and investment activities and thereby the demand for bank credit. As a result, the Bank saw its growth in assets - loans and advances – decelerated during the year in comparison to 2015.

However, due to proactive and timely decision making coupled with efficient execution of strategies, the Bank was able to forge ahead amid volatile and challenging conditions.

Winning Mix

As a result of foreseeing the challenging market conditions early in to the year, the Bank took several proactive measures to ride the tougher times which ultimately translated into positive business and financial outcomes as illustrated in detail in the latter part of this report.

- Proactive Asset and Liability Re-Pricing**
 The Bank started re-pricing its asset and liability products from early January in response to the monetary tightening measures that had already been taken as well as anticipating further tightening that could follow. This approach placed the Bank at an advantage compared to the competition enabling it to yield an early harvest, particularly in terms of mobilising deposits. In fact, the Bank was the first in the industry to offer 10% for one year Fixed Deposits at the beginning of the year in anticipation of the rising market interest rates.
- Continuous Monitoring of Rates and Recalibrating Asset Mix**
 The Bank continuously and objectively re-calibrated its asset portfolio to ensure its assets earn the highest possible yield to maintain required interest margins when the cost of funds was on the rise.
- Gradual Improvement in Asset Quality**
 The Bank adopted a proactive and cautious approach to avoid possible weakening of asset quality in response to the rising interest rates. As a part of this endeavor, the Bank strengthened its credit controls, deployed a rigorous recovery thrust which resulted in further improvements in non-performing loan ratio.
- Closer Tab on Overheads and Driving Efficiency**
 While striving to grow the top-line, the Bank simultaneously explored measures to narrow the cost base through improved cost management, process automation and streamlining its structure to enhance the bottom-line.

The Bank's investments in a state of the art fully-fledged core-banking system during 2015 commenced paying

dividends in terms of better turnaround times resulting in not just lower costs but also higher customer satisfaction.

- Targeted New Product Development**

The Bank introduced a 'Salary Saver' Product which offers added value for the salary one earns, providing a range of benefits not only to the salary remitter but also to members of his/her immediate family.

Further, the Bank introduced an Investment Planner product that enables customers to reach their financial targets within a specific time period.

The Bank also introduced a Condominium Investment Loan scheme for customers who wish to capitalise on the rising real estate market in Sri Lanka.

In addition, the Bank re-launched its unique and popular Fixed Deposit scheme 'Suwa Savi', which offers a free medical insurance cover for the deposit holder and his/her family in addition to the high interest paid on the deposit.

Tilt Toward Retail & SME

In the context of rising market interest rates, the Bank consciously increased its focus on Retail and Small and Medium Enterprises (SME) segments in 2016 which offers higher yields compared to the Corporate Banking. This shift from a volume game to a margin game was done with the view of keeping bank's interest margins intact to ensure achievement on its bottom-line.

Despite managing its appetite to grow Corporate Banking business, the Bank took measures to strengthen its existing long term relationships with Corporates and forging new ones, particularly the ones with trade facilities and other incomes.

The performance of each of these business segments along with Treasury is covered in detail below.

Retail & SME Segment

The retail segment which accounts for 77.34% of the Bank's total gross loans and advances in 2016 led the growth of the Bank's total assets, living up to its reputation of being a truly consumer bank.

This was amply evident from the portfolio growth experienced in areas of Credit Cards, Personal Loans and Housing Loans. Sammana, the Bank's flagship specialised loan product for government pensioners grew at a slower pace in comparison to the previous year due to macro economic reasons outlined above.

The growth in leasing business decelerated substantially, particularly due to the tighter financing and vehicle market related regulations introduced by the government with a view to curb vehicle imports.

However, the slowdown in some of the products that are highly sensitive to economic cycles were compensated by the Bank's

innovative product portfolio, branch support, sales force support and effective marketing and communication campaigns.

One such case was the above industry average growth recorded by Pan Asia Bank's Credit Card portfolio which recorded robust growth during the last 3 years while maintaining an NPA ratio that is well below the industry average.

Strong SME Thrust

One main noteworthy aspect of bank's performance in 2016 was its conscious efforts made towards supporting the Small and Medium Enterprises (SMEs) which functions as the lifeblood of our economy.

Despite the country having many banking players, the Bank saw a significant untapped potential in SMEs and strived to provide financial support to help them achieve their full potential. For this purpose the Bank continued to strengthen its regional presence and deployed additional resources to support these segments.

To further support this cause, in April the Bank ventured in to micro-financing in selected areas which has now gained much popularity among the target segment.

As a result of these conscious efforts the Bank was able to re-balance its portfolio appropriately between the developed and less developed regions and grow the Retail and SME portfolio by 28% or by Rs.15 billion to Rs. 68 billion.

Deposits

While mobilising deposits was a challenging task in 2016 due to the intense competition between the Banks as well as other financial institutions, the Bank managed to attract deposits to fund a large part of its advances growth.

The Retail & SME Banking deposits contributed with the lion's share of 89% of the total deposit base of the Bank while Corporate Banking saw its deposit base declining to a certain degree due to the liquidity constraints in the market. As a result, the Retail & SME segment had to act as an anchor by making up for the decline in Corporate deposit base in 2016.

However, a notable trend that was observed albeit not exclusive to Pan Asia Bank during the year was the decline in Current And Savings Account (CASA) ratio as the deposits shifted from the low yielding savings to high yielding term deposits.

Corporate Banking

Due to aforementioned macro-economic conditions and the shift in focus to maintain margins, the Corporate Banking had to bear the brunt of the impact by way of freeing up the funds for Retail & SME advances which fetch relatively higher yields.

Further, the Bank continued to revise the rates of the Corporate facilities in line with the prime lending rates which enabled the Bank to maintain its overall margins.

ONE MAIN NOTEWORTHY ASPECT OF BANK'S PERFORMANCE IN 2016 WAS ITS CONSCIOUS EFFORTS MADE TOWARDS SUPPORTING THE SMALL AND MEDIUM ENTERPRISES (SMES) WHICH FUNCTIONS AS THE LIFEBLOOD OF OUR ECONOMY.



The year saw the Corporate lending declining by 14% to Rs. 20 billion while the deposits also declined by 23% to Rs.10 billion.

However new Corporate relationships were built up with a strong focus on building fee - based income, mainly through trade lines in a bid to compensate for the lower margins in the segment.

The Bank also adopted a seamless approach to relationship management where the customer relationship management team is joined by representatives of the treasury, trade and the cash management divisions. This enabled the Bank to offer customised comprehensive end-to-end solutions.

Funding Line from Micro, Small and Medium Enterprises Bonds S.A.

In a bid to diversify the funding mix and also to support the lending drive, the Bank secured a medium term funding line in December from Micro, Small and Medium Enterprises Bonds S.A. a leading investment boutique specialised in emerging markets, sustainable and inclusive finance.

Under this arrangement the Bank secured USD 17.25 million equivalent to approximately Rs. 2.6 billion for up to 5 years at competitive rates. This was a high point in the Bank's financials in 2016 as these funds could now be used to provide the much needed financial support to the SME sector.

Micro, Small and Medium Enterprises Bonds S.A. credit facility arrangement was the second such foreign funding arrangement the Bank entered in to within a span of 3 years, as in 2013 the Bank entered in to a USD 20 million re-financing facility from the Europe based green financier, Global Climate Partnership Fund (GCPF) of which the second and the final tranche was completed in 2015.

Trade Finance Drive

The Bank in 2016 took conscious efforts to improve trade finance business by way of diversifying the client portfolio in a bid to increase sustainable trade income.

Due to these efforts the Bank made progress but the slowdown in trade activities including the particularly sharp fall in vehicle imports in 2016 had a significant bearing on trade income.

Minimising the excessive reliance on vehicle import related letter of credit income was a key objective of the Trade Finance team in 2016 for which purpose the team was strengthened by bringing in new expertise from the industry.

As a result, the Bank forged many new relationships with a diverse set of importers during the year under a concerted effort deployed in highly potential regions in the country.

New Products and Product Re-Launches

During the year, the Bank also launched several products while re-launching some of the existing products in response to the customer demand. However the main focus of the Bank in 2016 was to ensure deriving optimum results from its existing products, particularly the ones which were launched in recent years.

The marketing and promotional efforts were appropriately extended to support sales efforts for products based on the Bank's business requirements especially in managing the Bank's asset and liability mix.

Products introduced during the year are given below;

Target Investment Planner

The Bank launched the 'Target' Investment Planner in response to the increasing customer demand for a product which guarantees a target maturity value at the end of a specific investment period which could be built based on an agreed monthly deposit amount.

This product caters to customers who expect a lump sum at the end of a specific time period after building up a fund as an investment.

Condominium Investment Loan

The Bank observed a clear growth in the number of people moving into cities in search of higher economic opportunities who will then need housing – specially a condominium - as a part of their need to fit in to a modern lifestyle and easy commute. In view of this phenomena and the country's booming real estate market, the Bank launched the product, Condominium Investment Loan to provide financing for those who desire to invest in condominium properties for residential or investment purposes.

SuwaSavi

The Bank re-launched SuwaSavi, a one year fixed deposit with a free medical insurance. This is a one of a kind fixed deposit which offers a free medical insurance cover for the deposit holder and his/her entire family while paying a relatively high return on the deposit. For this purpose the

Bank tied up with a leading insurance services provider in the country.

Treasury Played a Key Role

The Treasury Department played a crucial role during 2016 in managing an optimal funding mix amidst liquidity constraints in the money markets which prevailed during most part of the year.

The management of the currency positions became extremely challenging given the weakening currency as the rupee fell 3.8% in 2016.

The Treasury Department's contribution to the net operating income of the Bank in 2016 was 13% amid highly challenging monetary and exchange rate conditions.

Increasing Footprint

Expanding Network

In 2016, the Bank opened 3 new branches in sprawling cities; Kottawa, Kaduwela and Mawanella bringing the Bank's innovative product portfolio and its excellent customer service closer to the people and businesses in those areas.

However, 2016 was year in which the Bank adopted a less aggressive strategy in terms of branch expansion as it has been in a consolidation phase since 2014 demanding higher performance from its existing network of branches. This strategy is now yielding visible results – both quantitatively and qualitatively.

Meanwhile, the Bank re-located its branches in Wattala and Ratnapura to more spacious locations with more amenities with a view to provide a superior service to the customers.

Digital Presence

Marking another landmark, the Bank's Facebook page crossed 200,000 fan base in 2016 which was a testament to bank's commitment to utilise digital media to build a stronger two way communication channel with existing and potential customers. This enabled the Bank to respond faster for the concerns and queries posed by customers and also to take their feedback into consideration to understand true customer requirements.

Revamping Corporate Website

Pan Asia Bank revamped its corporate website in 2016 to make it a more user friendly and an attractive platform to disseminate information with ease and to provide an enhanced online experience to users.

Meanwhile the Bank has already developed its new internet banking platform and the mobile-app which will be launched shortly.

Speaking of success



Current Accounts

Experience everyday convenience

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



Champion Saver

Higher returns with unlimited withdrawals

CHAMPION
SAVER
Savings Account

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



Children's Savings Accounts

Empower your child's future

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



Fixed Deposits

Enhanced returns on your deposits

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



Prime

A special banking services package for discerning customers



You deserve more!

- Personalised and specialised service
- A dedicated service support team



Sammana

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

Sammana

- A higher interest rate for Savings Deposits
- Obtain loans of up to Rs.1,500,000/-
- Repayment periods up to 7 years
- Ability to repay until 70 years of age
- A special Life Insurance Cover



Aspire Education Loans

Unleash the power of knowledge



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



Nivasa Housing Loans

Live like a king under your own roof

- Loan amount up to Rs. 25 million with a repayment period of up to 25 years
- Ability to choose between variable or fixed (05 years) interest rates
- Meet your purpose of renovation, purchase of land, investment or settlement of an existing Housing Loan
- Option to select a step-up repayment system



Solar Loans

Special loan scheme to purchase domestic solar energy systems



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



Personal Loans

Get what you deserve, now.



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



Pawning

Highest value for your Gold



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



Budget+ Leasing

Get your dream vehicle



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



SME Credit Facilities

Help your business thrive

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



Foreign Remittance Service

The easiest way to receive money from abroad



moving money for better



- Availability of Western Union and Al Ansari Exchange – Cash Express services
- Receive money within minutes from anywhere across the world
- Available at all branches island wide



Credit Cards

Amazing savings on your interest charges

- Lowest interest rates (Gold Card - 21.75%, Black cards -19.75%)
- Free of charge balance transfers at interest rates as low as 16%
- No joining fees or hidden charges



Condominium Investment Loan

Best way to profit from the rising condominium market

PAN ASIA



- Pay only the interest during the construction period (maximum of 5 years)
- Ability to sell the apartment and repay the capital at your convenience
- Option of making unscheduled payments at your convenience without incurring pre-settlement charges



Blue Chip Money Market Savings Account

Higher returns on your company funds

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

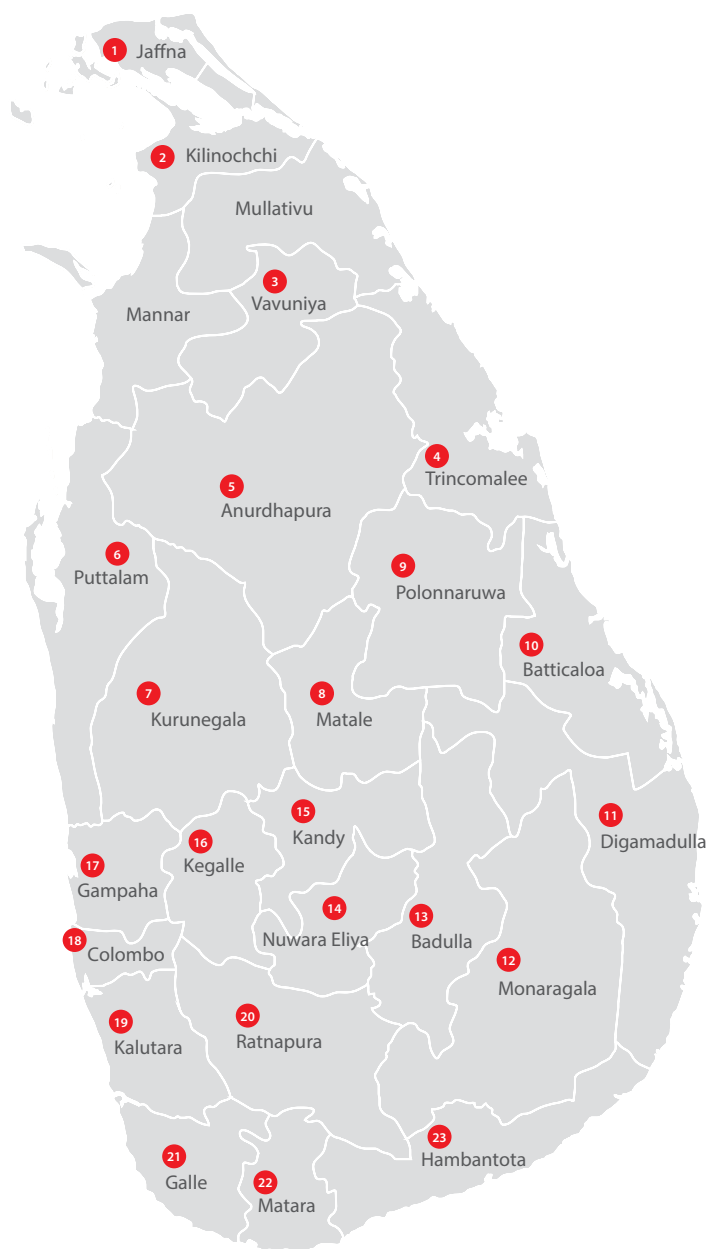


Suwasavi

A one year fixed deposit with a free family medical insurance



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



1. Jaffna District
Chunnamakam
Jaffna
Nelliady
2. Kilinochchi District
Kilinochchi

3. Vavuniya District
Vavuniya
4. Trincomalee District
Trincomalee
5. Anuradhapura District
Anuradhapura
Kekirawa

6. Puttalam District
Chilaw
Puttalam
Wennappuwa

7. Kurunegala District
Kuliyapitiya
Kurunegala

8. Matale District
Dambulla
Galewela
Matale

9. Polonnaruwa District
Kaduruwela

10. Batticaloa District
Batticaloa
Kattankudy

11. Digamadulla District
Akkaraipattu
Kalmunai

12. Monaragala District
Monaragala

13. Badulla District
Badulla
Bandarawela

14. Nuwara Eliya District
Hatton

15. Kandy District
Gampola
Kandy
Kandy City Centre
Katugastota
Kundasale
Peradeniya
Pilimathalawa

16. Kegalle District
Kegalle
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

22. Matara District
Akuressa
Matara

23. Hambantota District
Ambalantota
Tangalle

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Akkaraipattu	060	No 280, Kaiyoom Complex Building, Main Street, Akkaraipattu	Digamadulla	067-4924071	067-2279576	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Akuressa	072	No 54, Matara Road, Akuressa	Matara	041-4935855	041-2284677	Weekdays : 9.00 AM to 4.00 PM Sunday : 9.00 AM to 1.00 PM
Ambalangoda	041	No 103, Galle Road, Ambalangoda	Galle	091-4943164	091-2258064	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Ambalantota	053	No 155/1, Tissa Road, Ambalanthota	Hambantota	047-4931850	047-2225056	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Anuradhapura	032	No 49, Main Street, Anuradhapura	Anuradhapura	025-4976777	025-2234763	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Badulla	045	No 22A, Bank Road (Lower Kings Street), Badulla	Badulla	055-4976777	055-2225771	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Balangoda	062	No 84, Bans Rathwatte Mawatha, Balangoda	Ratnapura	045-4928310	045-2289081	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Bambalapitiya	009	No 329, Galle Road, Colombo 04	Colombo	011-4374055	011-2506825	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Bandarawela	048	No 340/1A, Badulla Road, Bandarawela	Badulla	057-4976777	057-2233554	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Battaramulla	063	No 123C, Pannipitiya Road, Battaramulla	Colombo	011-4343259	011-2885622	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Batticaloa	040	No 293, Trincomalee Road, Batticaloa	Batticaloa	065-4976777	065-2228486	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Borella	031	No 996A, Maradana Road, Borella	Colombo	011-4374207	011-2696461	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Chilaw	036	No 15, Bazaar Street, Chilaw	Puttalam	032-4976777	032-2224756	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Chunnakam	061	No 92, Dr. Subramaniam Road, Chunnakam	Jaffna	021-4923422	021-2241889	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Colombo Gold Centre	078	No 48 GF & 53 UF, Colombo Gold Center, Central Super Market, Pettah	Colombo	011-4061241	011-2339383	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Dam Street	019	No 22, Dam Street, Colombo 12	Colombo	011-4374130	011-2346052	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Dambulla	049	Jayalanka Building, Kandy Road, Dambulla	Matale	066-4928970	066-2284844	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Dehiwala	015	No 104, Galle Road, Dehiwala	Colombo	011-4374077	011-2730624	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Embilipitiya	038	No 49, Newtown Road, Embilipitiya	Ratnapura	047-4976777	047-2261624	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Galewela	071	No 201, Kurunegala Road, Galewela	Matale	066-4929970	066-2288320	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Galle	025	No 32, Old Matara Road, Galle	Galle	091-4976777	091-2226835	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Gampaha	011	No 95, Colombo Road, Gampaha	Gampaha	033-4976777	033-2220048	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Gampola	030	No 73E, Nuwara Eliya Road, Gampola	Kandy	081-4944625	081-2353998	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Hatton	075	No 68, Co-Operate Square Building, Hatton	Nuwara Eliya	051-4932040	051-2225665	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Homagama	076	No 381, High Level Road, Homagama	Colombo	011-4385740	011-2098484	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Horana	077	No 95, Rathnapura Road, Horana	Kalutara	034-4941060	034-2266566	Weekdays : 9.00 AM to 4.00 PM Sunday : 9.00 AM to 1.00 PM
Ja-Ela	066	No 71, Negombo Road, Ja-Ela	Gampaha	011-4344166	011-2232824	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Jaffna	037	No 570, Hospital Road, Jaffna	Jaffna	021-4976777	021-2221485	Weekdays : 9.00 AM to 5.00 PM Saturday : 9.00 AM to 1.00 PM
Kadawatha	026	No 138, Kandy Road, Kadawatha	Gampaha	011-4374185	011-2925192	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kaduruwela	052	No 918, Batticaloa Road, Kaduruwela	Polonnaruwa	027-4976777	027-2224474	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kaduvela	081	No 508/4, Avissawella Road, Kaduwela	Colombo	011-4328301	011-2565558	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kalmunai	042	No 100 & 104, Batticaloa Road, Kalmunai	Digamadulla	067-4976777	067-2225590	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kalubowila	047	No 46A, S D S Jayasinghe Mawatha, Kalubowila	Colombo	011-4374254	011-2828338	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kalutara	033	No 219/3, Galle Road, Kalutara	Kalutara	034-4976777	034-2221258	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kandy	005	No 123, D S Senanayake Veediya, Kandy	Kandy	081-4976777	081-2232994	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Kandy City Centre	044	No L1-5A, Lower Ground Floor, Kandy City Centre, No 5, Dalada Veediya, Kandy	Kandy	081-4951034	081-2205776	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.30 AM to 1.00 PM Sunday : 10.00 AM to 1.00 PM
Kattankudy	057	No 365, New Kalmunai Road, Kattankudy	Batticaloa	065-4926901	065-2248468	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Katugasthota	020	No 57, Kurunegala Road, Katugasthota	Kandy	081-4946135	081-2500362	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kegalle	027	No 72 & 74, Main Street, Kegalle	Kegalle	035-4976777	035-2221018	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kekirawa	067	No 91 & 93, Main Street, Kekirawa	Anuradhapura	025-4928934	025-2264598	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Kilinochchi	043	No 161, Kandy Road, Kilinochchi	Kilinochchi	021-4925952	021-2280075	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kiribathgoda	054	No 67, Makola Road, Kiribathgoda	Gampaha	011-4376061	011-2911041	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Kirulapone	022	No 100, High Level Road, Kirulapone, Colombo 06	Colombo	011-4374152	011-2515227	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kollupitiya	003	No 450, Galle Road, Colombo 03	Colombo	011-4667777	011-2301150	Weekdays : 7.00 AM to 10.00 PM Saturday : 7.00 AM to 10.00 PM Sunday : 9.00 AM to 10.00 PM
Kotahena	014	No 215A, George R De Silva Mawatha, Colombo 13	Colombo	011-4374066	011-2346066	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Kottawa	080	No 364/11, High level Road, Kottawa	Colombo	011-4324145	011-2172950	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kuliyapitiya	046	No 74, Kurunegala Road, Kuliyapitiya	Kurunegala	037-4943733	037-2284141	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kundasale	058	No 248, Digana Road, Kundasale	Kandy	081-4951644	081-2424624	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kurunegala	012	No 22, Suratissa Mawatha, Kurunegala	Kurunegala	037-4976777	037-2221731	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Maharagama	023	No 173/1, High Level Road, Maharagama	Colombo	011-4374163	011-2838397	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Malabe	035	No 410/2, Athurugiriya Road, Malabe	Colombo	011-4374218	011-2744405	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Matale	039	No 165, Trincomalee Street, Matale	Matale	066-4976777	066-2223007	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Matara	013	No 45B, Anagarika Dharmapala Mawatha, Matara	Matara	041-4976777	041-2231362	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Mawanella	082	No 300, Kandy Road, Mawanella	Kandy	035-4935291	035-2246140	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Minuwangoda	069	No 42, Veyangoda Road, Minuwangoda	Gampaha	011-4335770	011-2295929	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Monaragala	059	No 25, Bus Stand Road, Monaragala	Monaragala	055-4929313	055-2277223	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Moratuwa	024	No 18, Galle Road, Moratuwa	Colombo	011-4374174	011-2641354	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Narahenpita	021	No 526, Elvitigala Mawatha, Colombo 05	Colombo	011-4374141	011-2368667	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Nawala	079	No 162, Nawala Road, Nugegoda	Colombo	011-4322814	011-2853043	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Negombo	010	No 90, St. Joseph's Street, Negombo	Gampaha	031-4976777	031-2231259	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Nelliady	056	No 208A, Jaffna Road, Nelliady	Jaffna	021-4923164	021-2262969	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Nugegoda	008	No 132C, High Level Road, Nugegoda	Colombo	011-4374044	011-2828228	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Old Moor Street	018	No 314, Old Moor Street, Colombo 12	Colombo	011-4374099	011-2392897	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Panadura	017	No 506, Galle Road, Panadura	Kalutara	038-4976777	038-2243053	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Panchikawatta	002	No 262, Sri Sangaraja Mawatha, Colombo 10	Colombo	011-4374011	011-2447452	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Peradeniya	051	No 767, 769 & 769/1/1 Sirimawo Bandaranayake Mawatha, Kandy	Kandy	081-4951180	081-2232441	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Pettah	004	No 64, Keyzer Street, Colombo 11	Colombo	011-4374022	011-5363652	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Pilimathalawa	065	No 207, Colombo Road, Pilimathalawa	Kandy	081-4951870	081-2575335	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Piliyandala	055	No 107, Horana Road, Mampe, Piliyandala	Colombo	011-4376251	011-2604070	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Puttalam	064	No 116A, Kurunegala Road, Puttalam	Puttalam	032-4929662	032-2267967	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Rajagiriya	006	No 468, Kotte Road, Rajagiriya	Colombo	011-4374033	011-2866823	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Ratmalana	050	No 446, Galle Road, Ratmalana	Colombo	011-4374261	011-2738840	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Ratnapura	007	No 37, Bandaranayake Mawatha, Ratnapura	Ratnapura	045-4976777	045-2231848	Weekdays : 9.00 AM to 7.00 PM Saturday : 9.00 AM to 1.00 PM
Tangalle	074	No 3, Annapitiya Road, Tangalle	Hambantota	047-4929626	047-2241215	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Thalawathugoda	068	No 351/E, Pannipitiya Road, Thalawathugoda	Colombo	011-4344650	011-2796016	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Trincomalee	073	No 459, Dockyard Road, Trincomalee	Trincomalee	026-4925525	026-2225700	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Vavuniya	034	No 14, 2nd Cross Street, Vavuniya	Vavuniya	024-4976777	024-2225444	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Warakapola	070	No 139, Kandy Road, Warakapola	Kegalle	035-4928777	035-2267544	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Wattala	016	No 218, Negombo road, Wattala	Gampaha	011-4374088	011-2945104	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Wellawatte	029	No 135, Galle Road, Wellawatte	Colombo	011-4374196	011-2362399	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Wennappuwa	028	No 6, Chilaw Road, Wennappuwa	Puttalam	031-4934870	031-2249556	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
World Trade Centre	001	Level 2, East Tower, World Trade Centre, Colombo 01	Colombo	011-4976777	011-2346053	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM

Correspondent Banks

1. CANADA

Bank of Montreal
Bank of Nova Scotia
Royal Bank of Canada
Toronto Dominion
Canadian Imperial Bank of Commerce

2. UNITED STATES OF AMERICA

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

3. PERU

Banco Wiese Sudameris

4. CHILE

Banco Santander Chile

5. BRAZIL

Banco ABN Amro Real SA

6. DENMARK

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

7. IRELAND

National Irish Bank

8. UNITED KINGDOM

Arab National Bank
Bank of Ceylon
Deutsche Bank AG
Habib Bank AG Zurich
Mashreq Bank PSC
Shinhan Bank, London Branch
Standard Chartered Bank

9. FRANCE

Commerzbank AG
Union De Banques Arabes ET
Francaises

10. NETHERLANDS

ABN-Amro Bank NV
Habib Bank Ltd.

11. SPAIN

Deutsche Bank Sociedad Anonima
Espanola

12. GERMANY

American Express Bank GMBH
Commerz Bank AG
Deutsche Bank AG
Deutsche Bank Privat UND Dresdner
Bank AG
Landesbank Hessen - Thuringen
Girozentrale
Sparkasse Essen
Hypovereins Bank
Dresdner Bank AG

13. SWITZERLAND

Habib Bank AG Zurich
Luzerner Kantonalbank

14. SWEDEN

Danske Bank AS, Sverige Filial
Svenska Handelsbanken

15. NORWAY

Skandinaviska Enskilda Banken

16. EGYPT

Mashreq Bank Cairo

17. LUXEMBURG

Commerzbank AG

18. SLOVENIA

Bank Austria Creditanstalt D.D.

19. ITALY

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

20. HUNGARY

Kereskedelmi ES Hitel Bank RT
Raiffeisen Bank ZRT

21. AUSTRIA

Bank Austria Creditanstalt AG
Reichische Volksbanken AG

22. CZECH REPUBLIC

HVB Bank Czech Republic A.S

23. TURKEY

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

24. CYPRUS

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

25. ISRAEL

Israel Discount Bank Ltd
Mercantile Discount Bank Ltd.

26. JORDAN

Standard Chartered Bank

27. KUWAIT

Burgan Bank
National Bank of Kuwait
Kuwait Baharain International Exchange
Company KSC

28. BAHRAIN

Standard Chartered Bank

29. QATAR

Standard Chartered Bank
Mashreq Bank

30. UNITED ARAB EMIRATES

Commerz Bank AG Dubai branch
Emirates Bank International PJSC
Emirates Islamic Bank
Habib Bank AG Zurich
Habib Bank Ltd.
Mashreq Bank PSC
Standard Chartered Bank
UAE Exchange Centre
Bank Saderat Iran

31. OMAN

Standard Chartered Bank

32. SAUDI ARABIA

Al-Rajhi Bank
Saudi Hollandi Bank Ltd.
Bank of Al- Jazira

33. KENYA

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

34. ZIMBABWE

Standard Chartered Bank Zambia Ltd
Standard Chartered Bank Zimbabwe Ltd

35. SOUTH AFRICA

HBZ Bank Ltd
State Bank of India
Absa Bank Ltd

36. MAURITIUS

Mauritius Commercial Bank Ltd

37. SEYCHELLES

Bank of Ceylon

38. MALDIVES

Bank of Ceylon
Bank of Maldives PLC

39. INDIA

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



**40. PAKISTAN**

Dawood Bank Ltd
MCB Bank Ltd
Standard Chartered Bank
Summit Bank Ltd
Habib Metropolitan Bank Limited

41. RUSSIA

International Moscow Bank

42. NEPAL

Himalayan Bank Ltd
Laxmi Bank Ltd
Standard Chartered Bank Nepal Ltd

43. BANGLADESH

Bank Asia Ltd
Standard Chartered Bank
Islamic Bank Bangladesh Ltd
Mercantile Bank Ltd

44. CHINA

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

45. JAPAN

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

46. THAILAND

Kasikornbank Public Company Ltd
Oversea-Chinese Banking Corporation Ltd.
Standard Chartered Bank (Thai) Plc
United Overseas Bank (Thai) Public
Company Ltd
CitiBank N.A.

47. HONG KONG

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

48. KOREA

Deutsche Bank AG,
Kookmin Bank
Korea Exchange Bank
Shinhan Bank
Standard Chartered First Bank Korea Ltd
UBAF - Union De Banques Et Francaises
Woori Bank, Seoul
CitiBank Korea INC

49. VIETNAM

Australia and New Zealand Banking
Group Ltd
Standard Chartered Bank
CitiBank N.A.
HSBC Vietnam Ltd

50. TAIWAN

ABN Amro Bank N.V.
Bank of New York
Deutsche Bank AG,
Standard Chartered Bank
Wachovia Bank, NA
DBS Bank Ltd
CitiBank Taiwan Ltd
CitiBank N.A.

51. CAMBODIA

ANZ Royal Bank of Cambodia Ltd

52. PHILIPPINES

CitiBank N.A.

53. SINGAPORE

Bank of America, N.A. Singapore
Calyon
Commerzbank AG,
DBS Bank Ltd
Deutsche Bank AG
Fortis Bank S.A./N.V., Singapore
Malayan Banking Berhad
National Australia Bank
Nordea Bank Finland Plc, Singapore
Overseas Chinese Banking Corporation Ltd
Standard Chartered Bank
CitiBank N.A.
HSBC
UBAF
JP Morgan Chase Bank N.A.

54. MALAYSIA

Deutsche Bank (Malaysia) Berhad
OCBC Bank (Malaysia) Berhad
Standard Chartered Bank Malaysia Berhad
HSBC Bank Malaysia Berhad

55. INDONESIA

Bank Negara Indonesia - PT
Bank NISP
Bank OCBC Indonesia, PT
Deutsche Bank AG
Standard Chartered Bank
CitiBank N.A.

56. SOLOMON ISLANDS

Pan Oceanic Bank

57. AUSTRALIA

ANZ Banking Group Ltd
Commonwealth Bank of Australia
National Australia Bank Ltd
St. George Bank Ltd.
CitiBank N.A.

58. NEW ZEALAND

ANZ National Bank Ltd.
CitiBank N.A.

59. POLAND

ING Bank Slaski S.A.

60. ROMANIA

HVB Bank Romania SA

61. SERBIA

Unicredit Bank SRBIJA A.D

The facts and figures

Pan Asia Bank strongly believes that key to fostering sustainable long term stakeholder relationships lies in understanding and respecting their interests and aligning them with the Bank's organisational growth goals.

Pan Asia Bank also believes that in addition to Corporate Social Responsibilities (CSR) being a core component of our business strategy it also should be a concept embraced by all levels of our team members. This is why, in addition to numerous CSR activities conducted by our branches in their localities year around, annually we implement at least one major initiative to address a gap in the society we operate in.

CSR Programmes

Education

"Today a reader, tomorrow a leader." - Margaret Fuller

In 2016, an island wide library facility improvement project was initiated at 36 schools with the participation of our branches in the respective areas.

This project which was named "Red Cupboard" was designed to address a pressing need of the local communities where children are increasingly moving away from the habit of reading due to lack of proper library facilities. Accordingly, a set of selected Pan Asia Bank branches reached out to a needy school in their locality and undertook to improve the library facilities through activities such as colour washing, donation of required furniture and books to make those libraries a pleasant place for children to patronize. In addition, each such improved library was given a set of books selected to motivate and inspire children to reach excellence in their chosen field of study along with a unique Red cupboard which brought about the name project Red Cupboard to this worthy cause.

The implementation of the project "Red Cupboard" was done via the Bank's island wide branch network where respective Branch Managers visited the schools in the area for the initial assessment of the requirement. Based on this assessment, the nature of the each individual project was decided and implemented.

Disaster Relief

2016 floods were among one of the biggest natural disasters faced by our country which rendered a large number of people helpless. This drastic situation brought the entire nation together to help fellow Sri Lankans in distress and Pan Asia Bank too came forward to donate Rs.1 million to the "Manusath Derana" the disaster relief operation project conducted by "Derana" Media network along with the dry rations donated by our own staff members. A team of bank's staff members from Pan Asia Bank volunteered and worked

tirelessly to assist the operation of distribution of disaster relief at the "Manusath Derana" collection and distribution centre.

Bank's annual "Vesak Dandel" initiative also was cancelled in 2016 in order to channel those funds towards disaster relief efforts.

A team from Central Region visited residents of "Samasara Kanda", located in Aranayake, Kegalle District who were devastated by a massive land slide and provided them with dry rations and new cloths.

Health & Welfare

Pan Asia Bank Joined Hands with Rotary Club of Colombo Metropolitan for a Charity Golf Tournament

Pan Asia Bank joined hands with Rotary Club of Colombo Metropolitan as a Gold sponsor for their charity Golf tournament which was organised with the aim of financially contributing to the Rotary Foundation for their global campaign to eradicate polio and for service communities around the world. The funds collected from this event were also channelled towards funding a local community project which will be carried out at the "Castle Street Hospital – Maternity Wing" with the aim of reducing infant mortality, poverty and disease.

This charity event which consisted of a Golf tournament as well as a Golf carnival was held at the Royal Colombo Golf Club with the participation of over 250 golf enthusiasts.

Pan Asia Bank Staff Help Lady Ridgeway Children's Hospital

Pan Asia Bank Battaramulla branch donated a fully automatic water boiler to the Cardiothoracic Ward of Lady Ridgeway Children's Hospital. This initiative was organised by Pan Asia Bank Battaramulla Branch where all the staff members contributed towards this worthy cause.

A Day Well Spent with the Patients of Cancer Hospital Maharagama

The Human Resources Department together with the participation of staff from several other departments, conducted a CSR initiative at the National Cancer Hospital in Maharagama. During this activity Bank staff served breakfast, gave away toys for the children and books, fruits etc. to patients being treated there. Donations in the form of cash and goods were generously made by staff from many branches and departments towards this worthy cause and staff members from several departments joined the HR Team in visiting the hospital to serve the soup to the patients during their meal time. This effort was highly appreciated by the patients and the hospital staff.



Financial Inclusion

The National Pensioners' Day was celebrated this year at the Holiday Resort of the Department of Pensions in Kelaniya. The Bank made use of this occasion to create awareness about its special loan scheme 'Sammama' which is designed exclusively for retired government pensioners. At this event the staff also educated potential applicants about the special life insurance scheme that is offered with "Sammama" loan scheme with no medical check-ups.

- ① (Pic on L) The Chief Executive Officer, Dimantha Seneviratne is seen handing over the cheque for disaster relief work Coordinated by Derana Media (Pic on R) A section of Pan Asia Bank staff are seen engaged in disaster relief work at the site
- ② The picture shows the handing over of the cheque to Rotary Club of Colombo by Pan Asia Bank CMO with the aim of financially contributing to the global campaign to eradicate polio and also to fund a local community project aimed at reducing infant mortality, poverty and diseases
- ③ Here a school library is seen with cupboards full of books filled by Pan Asia Bank staff as part of its CSR project named, 'Red Cupboard'. During the year, the staff replenished books of libraries in 36 such schools earmarked in different remote areas of the country to inculcate the dying habit of reading among our younger generation

Strength in numbers

Human capital management, being the driving force for propelling an organisation forward, among all other areas of the Bank, took centre stage in 2016.

The future sustainability of a service rendering organisation such as ours largely depends on the relationships its employees build with the customers and the reliability of those who perform the key tasks in the crucial job of financial intermediation - banking. This is because we at Pan Asia Bank know that we are the custodians of our customers' hard earned money.

At a time when the technological advancements have reached an unfathomable level of development, we are aware that it is just a matter of time before your competitor could replicate your technology or even offer a different or a better proposition.

In this highly dynamic environment where circumstances could change in the blink of an eye, what makes Pan Asia Bank different from the rest is the quality of service offered by our employees - whom we refer to as 'Team Pan Asia'.

Therefore the HR team had to play a vital role in 2016 to make this differentiation and also to ensure that this difference was sustainable.

For this purpose, the Bank concentrated on three key areas, among others to ensure that Team Pan Asia went that extra mile to better understand our customers in order to make ourselves truly different from the rest. These key areas were:

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

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

1. Build an internal talent pool, ensure effective succession planning is in place to build a new generation of employees
2. Increased focus and investment on training & development
3. Positive industrial relations via effective consultation
4. Increased employee engagement activities

1. Build an Internal Talent Pool

The Bank reassured its adherence to its policy of internally mobilising resources by enabling its employees to embark on new career openings by firstly making these opportunities available to its internal cadre before providing same opportunities to external candidates. The Bank looked for outside talent only when it could not find suitable candidates from within.

THE 'STARGATE' INTERNSHIP PROGRAMME IS THE FIRST STRUCTURED INTERNSHIP PROGRAM INTRODUCED TO THE BANKING & FINANCIAL INDUSTRY AFFILIATED WITH THE INSTITUTE OF BANKERS SRI LANKA (IBSL).



While this policy enables the Bank to optimise its existing resources, it also provided an ideal opportunity for employees to enhance their skills and knowledge by way of expanding their exposure in to various areas of the Bank, providing scope for job enrichment.

The fact that almost 50% of our executive and above vacancies were filled by the Bank's existing employees provides clear testament.

This also demonstrates the Bank's efforts to enhance efficiency and productivity levels by way of re-deploying excess resources into areas where the need prevailed while broadening the scope of job enrichment of the employees.

Meanwhile based on a Business Process Re-engineering (BPR) programme undertaken during the fourth quarter of 2015, the Bank in 2016 re-stacked its head office functions by way of re-deploying excess employees into much more productive areas providing opportunities for those individuals to expand their horizons.

The objective was to manage the excess employees resulted from core-banking system implementation in early part of 2015 as well as from ongoing workflow automation projects.

As a result of these efforts, the Bank increased its cadre only by 38 in 2016 to 1,458. This again demonstrates the diverse opportunities made available in different areas of the Bank to its existing employees prior to acquiring external resources.

These opportunities coupled with the relatively flatter structure and the performance driven culture have provided the employee a faster route for career progression which is a rarity elsewhere in the industry which usually operates with more bureaucratic and tall structures.

To further this course as well as to address the existing dearth in professionals in the Banking industry, the Bank took the initiative to absorb and train the interns from the state and other universities under a programme called, 'The Pan Asia STARGATE'.

The 'Pan Asia STARGATE'

In 2016 the Bank built a platform for those who are passionate and enthusiastic in building a career at Pan Asia Bank by launching 'The Pan Asia STARGATE' internship programme.

We initiated this programme with the objective of identifying the brightest and the most enthusiastic individuals who are eager to build a rewarding career in the Banking and financial services industry.

This internship is a robust six month programme which is specially designed to build tomorrow's banking and financial professionals.

The interns will be awarded with an industry recognised certificate in 'Introduction to Commercial Banking' upon successful completion of the internship programme.

The 'STARGATE' internship programme is the first structured internship programme introduced to the Banking and financial industry affiliated with the Institute of Bankers Sri Lanka (IBSL). High performing interns will be considered to fill vacant positions in the Bank.



Youngest Talent Pool in the Industry

We at Pan Asia Bank boasts of having the youngest talent pool in the industry as over 56% of its employees are 30 years and below. The cadre below the age of 35 years is as high as 75% and those who are below 40 years consists of 85% of the total cadre.

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

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

WE AT PAN ASIA BANK BOASTS OF HAVING THE YOUNGEST TALENT POOL IN THE INDUSTRY AS OVER 56% OF ITS EMPLOYEES ARE 30 YEARS AND BELOW.



Meanwhile the Bank also capitalised on the emerging demographic trend of the baby boomers employed well past their retirement age due to their longer service tenures and tacit knowledge acquired through their valuable experience in the industry.

The Bank thus took many of the experienced retired bankers on board to lead certain key areas of the Bank.

Planning for Succession and Building a Talent Pool

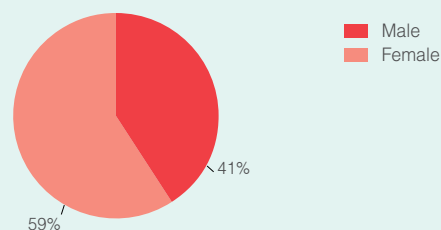
Succession planning and building a future proof workforce has been a top priority in the agenda of the Bank's human resource plan as the Bank is keen on developing its next generation of leaders.

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

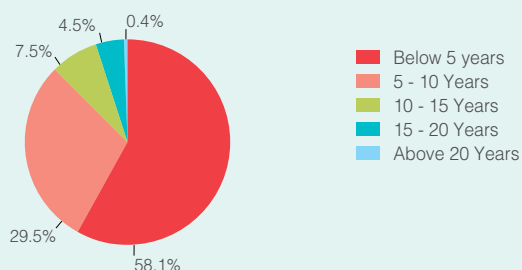
The Bank attracts the best talent from the market through a rigorous recruitment and selection process which will focus on developing them through on-the-job trainings and formal class room trainings.

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

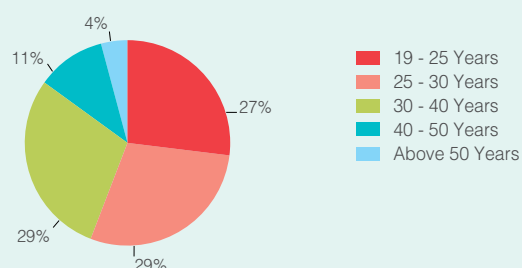
Analysis by Gender



Analysis by Service Tenure



Analysis by Age



2. Investment on Training & Development

Training and development took a new turn in 2016 as the Bank's investment allocation on training and leadership development rose by as much as 58% over 2015.

Pan Asia bank firmly believes that investing in continuous development of our employees is essential for the progress and sustainability of the Bank due to the reasons outlined above.

A competent employee is always well geared to provide a positive banking experience to our customers. Hence training and development takes a systematic approach in identifying, developing and deploying training initiatives in line with the Bank's goals and mission.

Training and development in 2016 mainly concentrated on initiatives focused on achieving bank wide service excellence among other technical and soft skills related training programmes.

Well Structured Training

At Pan Asia Bank, the training and development activities were carried out based on a well structured training calendar developed in accordance with a comprehensive Training Need Analysis (TNA).

The structuring and designing of training and development programmes were carried out based on the below framework covering the entire gamut of training deliverables that are expected to ensure the full return on investment for the Bank.

Among a host of training and development programmes carried out both internally and externally and on-the-job and off-the-job trainings, the following are worth highlighting.

Certified Internal Trainer Programme

After a comprehensive service quality training conducted in 2015 covering the whole employee base, the Bank in 2016 conducted a rigorous 'Train the Trainer programme' for selected employees from all departments/branches.

This programme saw as many as 182 internal trainers being developed to ensure the consistency and the sustainability of the service quality at all levels, in every area of the Bank going forward.

This army of internal trainers was deployed to carry out the trainings at their respective departments/branches based on a Standard of Practice (SoP) and the performance is evaluated on an ongoing basis by another team which was also selected from the internal training cadre.

Hence these internal trainers operate as agents who will create the required changes in a consistent manner, for the delivery of the standards of customer service as dictated by the Bank.

Pan Asia Bank Toastmaster Club

Pan Asia Bank successfully conduct the Speech Craft programme for its employees in 2016.

This was done with the support of Colombo Toastmasters Club as part of the Bank's investment in employee development.

Pan Asia Bank Toastmasters Club was also established with 26 toastmasters in October and 06 official meetings were held in 2016.

Foreign Training

The Bank believes that the employees should obtain an adequate foreign exposure to acquire required global know-how to perform their work functions effectively.

This exercise has been initiated in 2015 and further expanded last year by providing more foreign training opportunities for employees who performed exceptionally well in their respective areas.

The Training and Development unit has collaborated with renowned institutions such as Harvard Business School, Indian Institute of Management, National Institute of Banking, Pune India, etc. to provide effective foreign training opportunities for selected bank employees.

Guest Lecture Programmes

This was initiated in 2015 to promote the learning culture of the Bank. Industry specialists and renowned popular personalities are periodically invited to deliver short lectures and enable employee members to refresh their minds and explore and unleash potential through the guidance and directions provided by the experts.

E-Learning Solutions

Human Resources Department (HRD) implemented the e-learning platform for the Bank's employees to promote tech based learning for employees. Ninety such Trainee Banking Assistants were enrolled in e-learning during the year. The new phase of e-learning is under way to find a fully-fledged solution in the coming year.

The Bank in 2016 increased its total training hours to 54,676 hours of which internal training spanned across 49,183 hours while the external training was conducted over 5,042 and foreign training hours across 451 hours during 2016.

3. Positive Industrial Relations via Effective Consultation

Employee relations of the Bank involve maintaining healthy employer-employee relationships which contribute towards strong engagement, enhanced productivity, motivation, and improved morale.

Essentially, the Bank focuses on resolving issues by encouraging our employees to deal with each other honestly, openly and with mutual trust and respect.

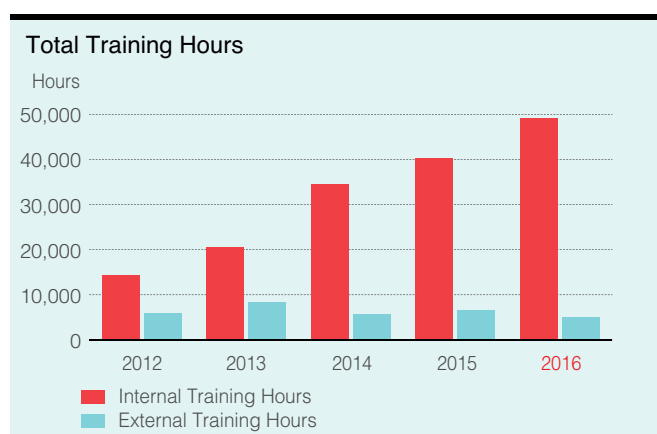
Furthermore, the Bank takes prompt action to address and resolve problems which may arise in relation to employee associations.

The management actively encourages employees to share the decision making process of the Bank by participating in activities such as setting goals, determining work schedules, making suggestions and emphasising on employee concerns through Joint Consultative Councils (JCC).

The JCC has made a valuable contribution towards fostering enhanced employee relations over the years. The JCC meetings held throughout the year enabled the Bank to address matters of mutual interest through positive relations formed between the employees and the management.

The committee of the JCC constitutes employees from the grades of Assistant Manager and below, whilst the Corporate

Training Category	2012	2013	2014	2015	2016
Internal Training Hours	14,265	20,565	34,523	40,292	49,183
External Training Hours	5,909	8,390	5,712	6,478	5,042
Foreign Training Hours	-	-	-	277	451
Total Training Hours	20,174	28,955	40,235	47,047	54,676



and Senior Management members participate by invitation to address matters of mutual interest and is chaired by the Director/CEO.

4. Employee Engagement Programmes

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

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

In this respect the Bank introduced a couple of new programmes such as the Bank-wide quiz and new-year celebrations in 2015 and continued to conduct both events this year as well.

Quiz and New Year Celebrations

'Pan Asia Bank Intellectuals', the inter branch/departmental quiz competition and Avurudu Celebrations were held in April.

The event was immensely successful marked by the overwhelming participation of 102 teams and nearly 725 employees. It was a unique occasion where the intellectual competition was followed by the New Year celebrations which proved to be very effective in enhancing employee engagement and was enjoyed by all.



Vesak Lantern Competition

Each year our human resources department together with the Sports Club organise the Vesak Lantern Competition in keeping with its traditions and festivities.

Poson Bana Sermon

In keeping with its tradition the Bank organised the annual Poson Bana sermon with the participation of a large number of employees from the Head Office and branches.

Newsletter - Pan Asia Connect

'Pan Asia Connect', the Bank's newsletter is an effective communications tool which was introduced for the first time in 2014.

Pan Asia Sports Day

After a lapse of several years, the employee sports day was held in August 2016. Employees from Departments and Branches around the country joined hands in unleashing their sporting prowess while enjoying unity, fellowship and team spirit.



Musical Show to Raise Funds

'Clarence Unplugged', the musical show was organised to raise funds for the many employee events organised by the Pan Asia Bank Sports Club. This fund raiser spearheaded by the Sports Club and supported by all employees and management was a great success.

Blood Donation Campaign

The annual blood donation campaign was organised at the Head Office in partnership with the National Blood Transfusion Service. The campaign was immensely successful with the participation of over 85 management and employees.



21st Anniversary Celebrations

An all night Pirith sermon followed by an almsgiving was held at Head Office on October 29th and 30th 2016 to commemorate the Bank's 21st Anniversary. Hindu, Catholic and Islamic ceremonies were also held during this period to mark the 21st anniversary of the Bank.

Long Service Awards

Employees who have served more than 10 and 15 years respectively were recognised at the Long Service Awards Ceremony held in October 2016. The recipients were awarded with cash tokens, certificates and awards to recognise their valuable contribution to the Bank.



Seasonal Fairs in April and December

Seasonal fairs were held in April and December 2016 providing opportunities for suppliers to sell their goods to employees at specially discounted rates. The fairs are greatly appreciated and looked forward to by the employees.

Dinner Dance

The Bank's Dinner Dance 2016 was a themed event and the theme for this year's event was 'Gatsby Night'. It was an elegant affair enjoyed by all participants. The dance was an immense success with the participation of over 550 employees and their spouses.



Christmas Carols

The annual Christmas carol service was presented by the Bank's choristers depicting the nativity story in song and video. The service was held at the Kollupitya branch and was attended by many employees.

Kiddies Party

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

This year's Kiddies party organised under the theme of 'Madagascar' was held at the CR & FC Sports Club and was attended by over 500 employee members and their families.

There were many exciting events such as fancy dress parade, games, cartoon characters and the arrival of Santa, which made this year's Christmas party all the more exciting.

Awards Won by the Bank

The Best Employer of the year 2016

Our excellence in human resources management was recognised by South Asian Partnership Summit and we were proud recipients of the prestigious award 'The Best Employer of the year 2016' at the recently held South Asian Partnership Summit & Business Awards (SAPS) which was held at the Water's Edge Battaramulla in October 2016.

Runner-up at the Great HR Debate

Pan Asia Bank became the runner-up at the Great HR Debate organised by the Institute of Personnel Management Sri Lanka which was held at the Bandaranaike Memorial International Conference Hall (BMICH) in June 2016.



The right measures

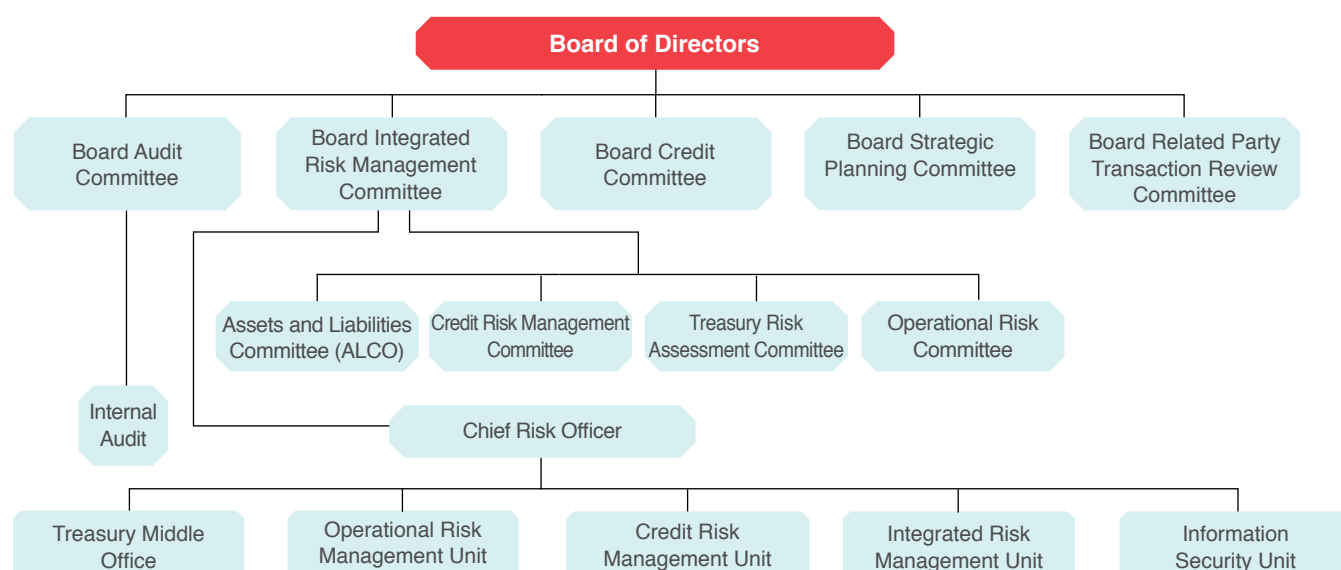
Vision and Culture

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 three year strategic plan, the strategic risk takers including Board of Directors, Chief Executive Officer and Corporate Management decide how much risk the Bank is willing to take, which is known as risk appetite, and make sure this appetite is not exceeded.

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

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

- Risk policies and governance at Board level.
- Organisation structure with required independence, authority, responsibilities and accountabilities.
- Corporate governance system equipped with Board sub Committees constituted according to the industry best practices and regulatory guidelines.
- Independent risk management function led by Chief Risk Officer and separate units to manage main risk associated with the business mainly credit, market and operational supported by managers with required expertise and exposure in respective risk areas.
- Continuous adherence to regulatory guidelines and management effort to adapt to the dynamic market environment with appropriate risk assessments on an ongoing basis.
- Risk based pricing for Bank's products and services.
- Adherence to the Internal Capital Adequacy Assessment Process in order to maintain adequate risk based capital buffer.
- Maintain a well balanced risk management function with required independence and effective support for decision making.
- Implementation of Loan Review Mechanism and reporting the outcome to the Board Integrated Risk Management Committee through regular reports.



- Risk oversight- This constitutes identifying and assessing risks, ensuring the risk is appropriately controlled by way of setting goals and monitoring & reporting same to the Board Integrated Risk Management Committee for corrective and remedial action.
- Day-to-day risk management function is done by the business units which are also known as the 'first line of defense'.

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

Credit Risk

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

- Credit risk management organisation structure incorporating a Credit Risk Management Unit reporting to Chief Risk Officer (CRO) who in turn reports to the Board Integrated Risk Management Committee.
- Written policies on credit granting and procedure: Bank - wide risk management, Credit Risk management, loan review mechanism and review of such policies on a yearly basis.
- Instructions and guidance to employees in credit chain on 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.
- Credit Control Unit which is coming under the direct supervision of Head of Branch Credit and Head of Corporate Banking, monitors payment due loans and advances to initiate recovery, rescheduling and restructuring action to curtail new additions to non performing loans and advances, thereby ensuring quality of advances.
- Delegate authority on lending powers to officers in the credit chain based on a predetermined consistent set of standards of grade, experience and job functions, abilities and judgemental capabilities.
- Assignment of borrower risk rating for all general credit facilities.
- Risk based pricing: When a borrower's credit risk increases, Bank demands a higher credit risk premium by way of increasing the interest rate.
- Requirement for higher level sanction for proposed credit facilities as risk rating deteriorates.
- Established dual responsibility in the credit proposals with independent review by Credit Risk Management Department for credit facilities other than small value 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 industry and geography.
- Independent loan reviews carried out by the Credit Risk Department by way of pre and post disbursement examinations of credit papers in order to ensure the quality of the loan book.
- Impairment on the potential delinquents by way of reviewing objective evidence assessments by the business units and adequacy of impairment provisions to absorb credit risk of the lending book.

Credit Concentration

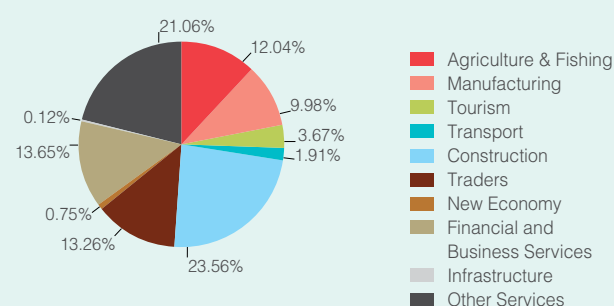
Concentration risk turns up when the credit portfolio is unevenly distributed to individual issuers or counterparties or within industry sectors/sub sectors, segments, Internal Risk Ratings and geographical regions.

Sector Concentration

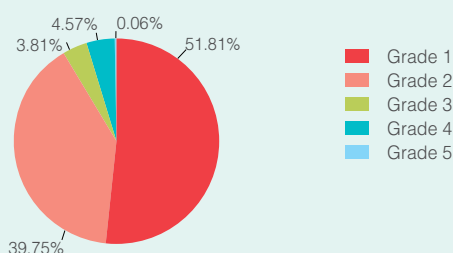
The Bank's sector concentration is in par with the widely accepted norms, risk appetite and regulatory requirements directed by the regulator. Exposure to each sector is closely

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.

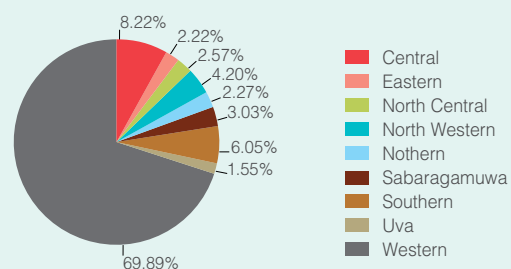
Sector wise Concentration



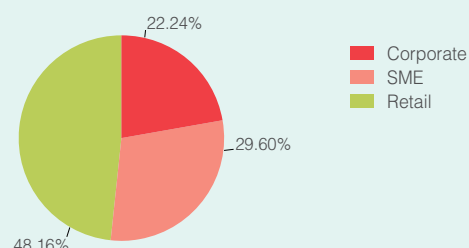
Risk Rating wise Concentration



Geographical Concentration



Segment wise Concentration



Market Risk

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

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

The categories of market risk of the Bank are:

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

Market Risk Governance

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

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

Value at Risk (VaR)

The Bank measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a 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 day, one week and one month with confidence levels of 95%, 97.5% and 99%.

Stress Testing

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

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

Liquidity Risk

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

Asset and Liability Management Committee (ALCO)

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

Treasury Risk Assessment Committee

The Treasury Risk Assessment Committee focuses on strengthening the risk management process with clear responsibilities. The Committee is responsible and accountable to the Board Integrated Risk Management Committee. The Committee suggests appropriate action to improve the Treasury Risk Management Policies/Procedures based on Key Risk Indicators.

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

Treasury Middle Office (TMO)

Market Risk management function which is separate from the Treasury is monitored by the independent Treasury Middle Office (TMO) which consist of highly qualified staff members. This was further strengthened during the year under review. Key monitoring activities of Market Risk/Middle Office include:

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

The BIRMC discusses in detail the key risk goals in relation to market risk at each meeting.

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

The Bank will continue to strengthen its Middle Office function in 2017 by further strengthening its market risk assessment and monitoring activities.

Operational Risk

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

Objectives and Benefits

Efforts on Operational Risk and Control Management are increasingly valuable to the business at Pan Asia Bank. In addition to the regulatory need, these efforts are important to minimise losses and protect the Bank's capital.

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

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

- **Brand Image of the Bank**

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

Philosophy and Principles

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

- The internal operating policies of the Bank's Operational Risk Management framework are outlined in the Operational Risk Management Policy which is approved by the Board of Directors and annually reviewed and updated.
- Currently the Bank is contemplating to migrate to advanced approaches in calculation of capital of the Bank for operational risk management.
- The Bank's Operational Risk Management practices are subject to independent review by internal and external auditors.
- The Bank has a dedicated Operational Risk Management Unit to manage and monitor operational risks and controls, Ensure loss data is accurately recorded and reported internally as well as externally. Operational risk related incidents are closely investigated and recommendations given on required controls to avoid similar Operational risk related incidents in the future.
- Based on the requirement to maintain a strong Operational Risk Management process with clear responsibilities, an Operational Risk Management Sub Committee is established within the Bank consisting of management personnel in operations and related activities chaired by the Chief Risk Officer of the Bank. The Sub Committee is responsible, accountable and answerable to the Board Integrated Risk Management Committee (BIRMC).

Methodologies and Strategy

For effective monitoring and mitigation of Operational Risk, the Bank has implemented following methodologies and strategies:

The Management of Operational Risk comprises;

- Identification, Assessment, Monitoring and Control of Operational Risk and Reporting. The above is required to maintain losses within acceptable levels and to protect the Bank from foreseeable future losses. Acceptable losses are highlighted in the Bank's risk appetite statement.

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

Insurance

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

The Business Continuity Plan (BCP)

The Business Continuity Plan (BCP) is an essential part of an organisation's response planning. It sets out how the business will operate following a disaster incident and how it expects to return to “business as usual” in the quickest possible time thereafter. The BCP of the Bank covers all areas of banking operations with agreed arrangements for bringing events under control. The necessary resources for maintaining critical business functions and staff required are also looked at in the plan. The BCP document is reviewed annually and Disaster Recovery Drills are conducted at least once a year by relevant departments to test the effectiveness of BCP.

Due Diligence Tests on Activities Outsourced

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

The outsourcing activities are governed by the laws applicable to the Banking industry and directions issued by the regulator. Further, the Bank has an Outsourcing Policy approved by the Board of Directors which clearly stipulates internal controls and due diligence in obtaining outsourced services.

A Vendor Management Unit has been established to centrally handle all outsourcing arrangements in the Bank and a Monitoring Committee is in place to closely monitor complaints and carry out periodic supervision over quality of outsourced activities.

Information Security Risk

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

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

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

Strategic Risk

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

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

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

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

Reputation Risk

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

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

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

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

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

Trends in Key Indicators

As at 31st December	2016	2015
Net Loans to Total Assets	66.82%	69.72%
Loans to Customer Deposits	98.43%	98.66%
Liquid Assets to Short-term Liabilities	2.03	1.98
Large Liabilities to Earning Assets	0.61	0.55
Purchased Funds to Total Assets	82.50%	82.81%
Commitments to Total Loans	8.52%	8.60%

Getting it right

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

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

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

Board Committees

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

Board Audit Committee - Pages 114 to 115.

Board Integrated Risk Management Committee - Pages 116 to 117.

Board Human Resources and Remuneration Committee - Page 118.

Board Nomination Committee - Page 119.

Board Credit Committee - Pages 120 to 121.

Board Strategic Planning Committee - Pages 122 to 123.

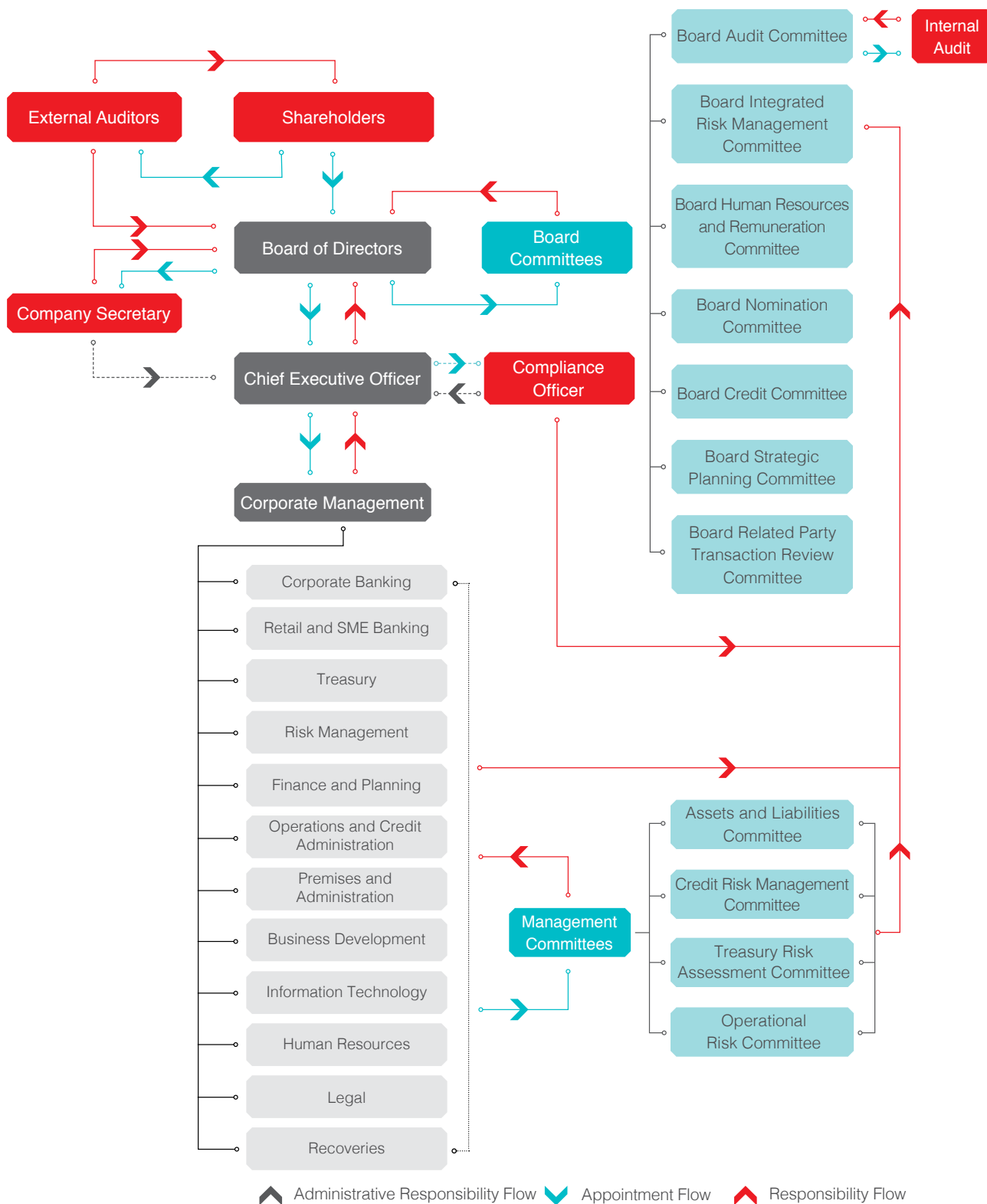
Board Related Party Transactions Review Committee- Page 124.

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;



Governance Structure



Regulatory Framework

The Central Bank of Sri Lanka (CBSL) has issued Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (As amended subsequently) which the Banks had to comply with since the year 2010, in view of enhancing effective Corporate Governance practices, transparency and accountability.

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

However, the compliance with CSE Listing Rules on Corporate Governance, has not been disclosed in the Annual Report separately, as Listed Banks are exempted from complying with the 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 4750 and provides a report of factual findings on the extent of Bank's compliance with the said Directions. The external auditors carried out this procedure in respect of the year 2016 as well and have issued a report on their review and factual findings on same.

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

The Auditors were also engaged to carry out a review of the Board's Statement on Internal Controls relating to Financial Reporting System of the Bank based on Sri Lanka Standard on Assurance Engagements 3050 and their report is given in page 113 of the Annual Report.

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

The following section summarises the Bank's degree of compliance with Corporate Governance principles specified in Act Direction No.11 of 2007 (as amended subsequently) on Corporate Governance for Licensed Commercial Banks in Sri Lanka and 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	<p>The Bank's strategic objectives and corporate values are incorporated in the Board approved Strategic Plan for the period 2015-2017.</p> <p>These strategic objectives are communicated to relevant staff at regular briefing sessions and discussion meetings and then cascaded down to all levels.</p> <p>The corporate values which are derived from vision and mission statements are communicated to all staff via e-mails and at the various meetings and forums.</p>

Section	Principle	Degree of Compliance	Remarks
(b)	Approve the overall business strategy of the Bank including the overall risk policy, and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Complied with	<p>The overall business strategies of the Bank set by the Board in consultation with Corporate Management are focused on promoting sustainability and profitable growth of the Bank.</p> <p>The Board approved strategic plan which contains measurable goals for 2015-2017 period is in place. The strategic plan for 2018-2020 period is being developed.</p> <p>The business strategy is reviewed on a quarterly basis with updates. The Board approved the annual budget which is derived from the Bank's strategic plan.</p> <p>Risk management policies and procedures are approved by the Board and monitored continuously. These are reviewed on an annual basis and revised on a need basis.</p>
(c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	Complied with	<p>A stringent risk management process has been established covering a whole range of risk stemming from Credit, Market, Operational, Liquidity, Strategic, Information security & Compliance and appropriate strategies have been adopted based on the risk appetite of the Bank. Further, appropriate risk culture has been promoted across the Business and other oversight functions ensuring their functions in line with the agreed risk tolerance.</p>
(d)	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	Complied with	<p>Shareholder communication policy approved by the Board is in place. The Customer Charter sets key standards of fair banking practices envisaged by customers when they undertake transactions with the Bank.</p>
(e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with	<p>The Bank has a separate Internal Audit Department which directly report to the Board Audit Committee. The Board Audit Committee relies on the Internal Audit Department to determine the adequacy and the integrity of the Internal Control Systems and Management Information Systems.</p>
(f)	Identify and designate Officers Performing Executive Functions of Licensed Commercial Banks as referred to in the Banking Act Determination No. 03 of 2010 on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks as 'Key Management Personnel' of the Bank.	Complied with	<p>'Officers Performing Executive Functions' as referred to in the Banking Act Determination No. 03 of 2010 on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks have been identified as 'Key Management Personnel' of the Bank.</p>

Section	Principle	Degree of Compliance	Remarks
(g)	Define the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel.	Complied with	<p>The Board shares its responsibilities as a team and depending on specific skills and expertise they are appointed to different Committees to manage the affairs in the Bank. Defined areas of authority, goals and targets have been approved by the Board.</p> <p>The responsibilities and authority of Chief Executive Officer and other Key Management Personnel are also defined.</p>
(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 respective areas. The Affairs of the Key Management Personnel are monitored by the Board.
(i)	Periodically assess the effectiveness of the Board Directors' own governance practices, including: <ul style="list-style-type: none"> 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	<p>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 made by the Directors annually. This document is called 'Board performance evaluation checklist'. The Board assesses the effectiveness of its own governance practices on an annual basis.</p>
(j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Complied with	A succession plan for 'Key Management Personnel' is in place.
(k)	Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with	<p>Board Committees on Risk Management, Audit, Human Resources & Remuneration, Nomination, Credit, Strategic Planning, and Related Party Transactions Review meet regularly and the Key Management personnel attend these meetings to review policies, establish communication lines and monitor progress towards corporate objectives.</p> <p>The minutes of these Committee meetings are tabled at Board Meetings. The Members of the Corporate Management team attend Board Meetings by invitation to make presentations on their respective areas.</p>

Section	Principle	Degree of Compliance	Remarks
(l)	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with	<p>The Board Secretary furnishes Directors a set of rules with regard to regulatory directions and requirements on their appointment. They are also briefed about developments in the regulatory environment at Board Meetings to ensure that their knowledge is updated regularly to facilitate effective discharge of their responsibilities.</p> <p>The Compliance Officer submits reports on regulatory requirements to the Board Integrated Risk Management Committee enabling them to identify the regulatory environment.</p> <p>The Chairman, CEO and Directors maintain a good relationship with the regulators with regard to strategic matters of the Bank while the Compliance Officer maintains effective relationship with the regulator with regard to all Compliance matters.</p>
(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 is approved by the Board specifies these requirements.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions.	Complied with	The Chairman and the CEO are appointed by the Board. Functions and responsibilities of the Chairman and the CEO have been defined and approved by the Board.
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied with	12 Board Meetings were held during the year and the regulation has been complied accordingly. The attendance of the Board and Committee meetings are given on page 110.
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, Draft Minutes and Board Papers are sent as per the Corporate Governance directive within the stipulated time frame, enabling Directors to submit their views, proposals and observations under any other business at Board Meetings.

Section	Principle	Degree of Compliance	Remarks
3 (1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board Meetings, reasonable notice may be given.	Complied with	Board Meeting Notice and Board Papers are circulated to Directors 7 days in advance of the Board Meeting providing all Directors and opportunity to attend.
3 (1) (vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' Meetings through an alternate Director shall, however, be acceptable as attendance.	Complied with	Board Meetings have been duly attended by all the Directors as identified in page 110.
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with	The Company Secretary appointed in line with the stipulated regulatory requirement.
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with	A Board approved policy 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. Directors can inspect the Board Minutes as and when required.

Section	Principle	Degree of Compliance	Remarks
3 (1) (x)	<p>Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The Minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board Meetings. Therefore, the Minutes of a Board Meeting shall clearly contain or refer to the following:</p> <p>(i) a summary of data and information used by the Board in its deliberations</p> <p>(ii) the matters considered by the Board</p> <p>(iii) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence</p> <p>(iv) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations</p> <p>(v) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and</p> <p>(vi) the decisions and Board resolutions</p>	Complied with	The Board minutes contain a summary of data and information used by the Board in its deliberations, decisions and Board resolutions. The Board minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations. The Understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted too are contained in the Board minutes. The Minutes and the Board Papers are maintained to provide the details stipulated.
3 (1) (xi)	<p>There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/ their duties to the Bank.</p>	Complied with	Approved Board procedure includes a provision to enable the directors to seek independent professional advice at the Bank's expense.

Section	Principle	Degree of Compliance	Remarks
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or Related Parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board Meeting, where independent Non - Executive Directors who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board Resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board Meeting.	Complied with	The Board procedure includes provisions to manage conflicts of interests of Directors. The Bank follows guidelines issued by the Director Bank Supervision with regard to Related Party transactions and directors abstain in voting and take part in discussions where issues or items pertaining to conflict of interest are discussed.
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied with	The Board has a formal schedule of mandatory matters specifically reserved for the Board, apart from the other Board Papers that are included in every Board meeting.
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	Complied with	The Bank is solvent and no situation arisen where its solvency has been in doubt. The Board is aware of the requirement to inform the Director Banking Supervision of the situation of the Bank prior to taking any decisions or action, if the Bank considers that the procedures to identify when the Bank is or is likely to be unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with	The Bank is in compliance with the Capital Adequacy Ratio requirements stipulated by the Central Bank of Sri Lanka and other prudential grounds.
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction.	Complied with	The Corporate Governance Report is published on pages 81 to 110 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.

Section	Principle	Degree of Compliance	Remarks
3 (2)	The Board's Composition		
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with	11 Directors constitute the Board at present.
3 (2) (ii)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied with	The Company Secretary monitors the service period of Directors. There are no Directors serving for more than 9 years as at to date.
3 (2) (iii)	An employee of a Bank may be appointed, elected or nominated as a Director of the Bank provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Complied with	Presently all 11 Directors are Non - Executive Directors hence, this does not exceed one-third of the number of Directors of the Board as identified in page 110.
3 (2) (iv)	The Board shall have at least three Independent Non - Executive Directors or one third of the total number of Directors, whichever is higher. A Non - Executive Director shall not be considered independent if he/she:	Complied with	There are 5 Independent Non - Executive Directors on the Board as identified in page 110.
(a)	has direct and indirect share holdings of more than 1 per cent of the Bank.	Complied with	Currently No Director holds more than 1% Shareholding.
(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 2016.
(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 2016.
(d)	has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a "Close relation" shall mean the spouse or a financially dependant child.	Complied with	The Bank has not come across any situation as such during the year 2016.

Section	Principle	Degree of Compliance	Remarks
(e)	represents a specific stakeholder of the Bank.	Complied with	One Director represents a specific stakeholders of the Bank.
(f)	is an employee or a Director or a material shareholder in a company or business organisation:	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.
	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		
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	Complied with	The Company Secretary ensures that the alternate Director appointed to represent an Independent Director is also an Independent Director.
3 (2) (vi)	Non - Executive Directors shall be persons with credible track records and/ or have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance and resources.	Complied with	The Board considers Nomination Committee recommendation prior to considering the appointment of Non - Executive Directors.
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non - Executive Directors.	Complied with	Required quorum is complied with.

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 in page 110 " Present composition of Directors".
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied with	The Board and the Nomination Committee has a procedure in place.
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	Complied with	Two Directors were appointed to fill casual vacancies the period until the Annual General Meeting and will be subject to election by shareholders at the Annual General Meeting to be held in 2017.
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall: <p>(i) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and</p> <p>(ii) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders'</p>	Complied with	All Director resignations and removals are duly communicated to the relevant regulatory authorities as per Colombo Stock Exchange regulations. <p>Mr. Mangala Goonatilleke and Mr. Dimantha Seneviratne resigned and Mr. Nimal Perera resigned upon completing his term of 9 years.</p>
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.

Section	Principle	Degree of Compliance	Remarks
3 (3)	Criteria to Assess the Fitness and Propriety of Directors		
3 (3) (i)	The age of a person who serves as Director shall not exceed 70 years.	Complied with	There are no Directors who are over 70 years of age. The Company Secretary maintains the records of the Directors.
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied with	As per the declarations provided by the Directors, none of the Directors holds Directorships in more than 20 companies.
3 (4)	Management Functions Delegated by the Board		
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied with	All delegations have been done by the Board after due consideration.
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with	All delegations are made in a manner that would not hinder/reduce the Board's ability to discharge its functions.
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	The present Chairman is an Independent Non - Executive Director.

Section	Principle	Degree of Compliance	Remarks
3 (5) (iii)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship including financial, business, family or other material/relevant relationship(s), if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied with	The Directors' sign a declaration to this effect and there are no relationships reported.
3 (5) (iv)	The Chairman shall: <ul style="list-style-type: none"> (i) provide leadership to the Board (ii) ensure that the Board works effectively and discharges its responsibilities and (iii) ensure that all key and appropriate issues are discussed by the Board in a timely manner. 	Complied with	The Chairman is responsible for conducting of the Board meetings, preserving order and ensuring that the proceedings of the meetings are conducted in a proper manner.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied with	The Company Secretary circulates a formal agenda prior to the Board Meeting. This agenda is approved by the Chairman of the Board.
3 (5) (vi)	The Chairman shall ensure that all directors are properly briefed on issues arising at Board Meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with	The Chairman ensures that the Board is adequately briefed and informed regarding the matters arising at the Board. Board Papers are sent seven days prior to the meeting in order for Directors to request any other information if necessary. Management information is provided to Directors for the Board meeting and Committee meetings enabling them to assess the stability and performance of the Bank.

Section	Principle	Degree of Compliance	Remarks
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 an Independent Non - Executive Director and therefore does not get involved in executive functions.
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with	The Chairman communicates with the shareholders at the Annual General Meeting. All shareholders have access to the Company Secretary at any given time.
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	Complied with	The Chief Executive Officer functions as the apex executive in charge of the day to day management.

Section	Principle	Degree of Compliance	Remarks
3 (6)	Board Appointed Committees		
3 (6) (i)	The Bank shall have at least four Board Committees as set out in Directions 3(6) (ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each Committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc. under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Complied with	The Board has established an Audit, Nomination, Human Resources & Remuneration, Integrated Risk Management, Credit, Strategic Planning and Related Party Transactions Review Committees. All Board Committees submit minutes to the Board. Each Committee report is published in the Annual Report on pages 114 to 124.
3 (6) (ii)	Audit Committee		
(a)	The Chairman of the Committee shall be an Independent Non - Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied with	The Chairman of Audit Committee is an Independent Non - Executive Director and a Fellow of the Institute of Chartered Accountants of Sri Lanka whose qualifications and experience are disclosed in page 30 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:	Complied with	The Audit Committee has made its recommendations on the following:
	(i) the appointment of the External Auditors for audit services to be provided in compliance with the relevant statutes		(i) the appointment of the External Auditors and services to be provided are 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		(ii) the implementation of the CBSL guidelines issued to Auditors from time to time
	(iii) the application of the relevant accounting standards and		(iii) the application of the relevant accounting standards
	(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.		(iv) the service period, audit fee and any resignation or dismissal of the Auditors. Further, the Committee ensures that the service period of the engagement of the External Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the Audit before the expiry of three years from the date of the completion of the previous term.

Section	Principle	Degree of Compliance	Remarks
(d)	The Committee shall review and monitor the external Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with	The Committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with Sri Lanka Auditing Standards.
(e)	The Committee shall develop and implement a policy on the engagement of an external Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an External Auditors' of non-audit services does not impair the external Auditors' independence or objectivity. When assessing the external Auditors' independence or objectivity in relation to the provision of non-audit services, the Committee shall consider <ul style="list-style-type: none"> (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)	<p>The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including</p> <p>(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</p> <p>(ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations and</p> <p>(iii) the co-ordination between firms where more than one audit firm is involved</p>	Complied with	The nature and scope of the audit and related engagements are discussed at the Board Audit Committee meeting.
(g)	<p>The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the Bank's annual report and accounts and quarterly reports before submission to the Board, the committee shall focus particularly on</p> <p>(i) major judgemental areas</p> <p>(ii) any changes in accounting policies and practices</p> <p>(iii) significant adjustments arising from the audit;</p> <p>(iv) the going concern assumption and</p> <p>(v) the compliance with relevant Accounting Standards and other legal requirements</p>	Complied with	<p>The Board Audit Committee reviewed the financial information of the Bank, in order to monitor the integrity of Annual and Quarterly Financial Statements prepared with disclosures and the significant financial reporting judgements contained therein. The review focuses on the following:</p> <ul style="list-style-type: none"> • Major judgemental areas • Any changes in accounting policies and practices • Significant adjustments arising from the audit • The going concern assumption • Compliance with relevant accounting standards and other legal requirements. <p>The committee makes their recommendations to the Board on the above on a quarterly basis.</p>
(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 independently and discussed related matters in the absence of Key Management Personnel.

Section	Principle	Degree of Compliance	Remarks
(i)	The Committee shall review the external Auditors' Management Letter and the management's response thereto.	Complied with	The Committee reviewed the external auditor's Management Letter and the management response thereto. The committee reviews the progress and the action plans of outstanding items on an ongoing basis.
(j)	The Committee shall take the following steps with regard to the internal audit function of the Bank:	Complied with	<p>(i) and (ii) - the Audit Committee review and monitor 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.</p> <p>(iii) Performance of the Head and Senior staff members of the Internal Audit Department are reviewed/assessed annually.</p> <p>(iv) The Committee reviewed the appointments of senior staff and outsourced service provider's reports.</p> <p>(v) The Committee appraised the resignations of senior staff members of the internal audit department and outsourced service providers.</p> <p>(vi) The Internal audit function is an independent function with direct reporting to the Board Audit Committee.</p>
	(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		

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 there to 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	<p>The Chief Financial Officer, the Head of Internal Audit and representatives of external auditors attends monthly committee meetings.</p> <p>The Chief Executive Officer, Corporate and Senior Management members attend meeting upon invitation.</p> <p>The Committee met external auditors independently without the executive management being present.</p>
(m)	<p>The Committee shall have:</p> <p>(i) explicit authority to investigate into any matter within its Terms of Reference;</p> <p>(ii) the resources which it needs to do so;</p> <p>(iii) full access to information; and</p> <p>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>	Complied with	<p>The Audit Committee has</p> <p>(i) explicit authority to investigate into any matter within its terms of reference</p> <p>(ii) the resources which it needs to do so;</p> <p>(iii) full access to information; and</p> <p>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>
(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 15 times during the year and the committee's conclusions are recorded in the minutes.
(o)	<p>The Board shall disclose in an informative way,</p> <p>(i) details of the activities of the Audit Committee;</p> <p>(ii) the number of audit committee meetings held in the year; and</p> <p>(iii) details of attendance of each individual Director at such meetings</p>	Complied with	<p>The details of Committee activities and number of meetings are disclosed in pages 114 to 115 of the Annual Report.</p> <p>Attendance by individual Directors in page 110 of the Annual Report.</p>

Section	Principle	Degree of Compliance	Remarks
(p)	The Secretary of the Committee shall record and keep detailed Minutes of the Committee Meetings.	Complied with	The Head of the Internal Audit who is the Secretary of the committee records and keeps the minutes of the committee meetings.
(q)	The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditors.	Complied with	A Whistle Blowing Policy reviewed and approved by the Committee is in place as at to date. The Audit Committee is 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 118 under "Board Human Resources and Remuneration Committee Report".
(b)	The Committee shall set goals and targets for the Directors, Chief Executive Officer and the Key Management Personnel.	Complied with	The goals and targets for the Chief Executive Officer and the Key Management Personnel are documented. This requirement is not applicable to Non -Executive Directors.
(c)	The Committee shall evaluate the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with	The Committee evaluates the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determines the basis for revising remuneration, benefits and other performance based incentives.
(d)	The Chief Executive Officer shall be present at all meetings of the Committee, except when matters relating to the Chief Executive Officer are being discussed.	Complied with	The Chief Executive Officer has attended all meetings and was excused when matters relating to him were discussed.

Section	Principle	Degree of Compliance	Remarks
3 (6) (iv)	Nomination Committee		
(a)	The Committee shall implement a procedure to select/appoint new Directors, Chief Executive Officer and Key Management Personnel.	Complied with	Procedure for the selection/appointment of the Directors and Chief Executive Officer is in place.
(b)	The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied with	The Committee considers and recommends the re-election of current Directors to the Board.
(c)	The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Chief Executive Officer and the Key Management positions.	Complied with	The Committee has set the criteria for the appointment or promotion to the post of Chief Executive officer.
(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 and the Declarations are tabled at the Nomination Committee prior to forwarding to Central Bank of Sri Lanka for approval to ensure that the Directors are fit & proper persons to hold office.
(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 Key Management Personnel are in place. Succession arrangements for retiring Board of Directors in considered as and when it is necessary.
(f)	The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The Chief Executive Officer may be present at meetings by invitation.	Complied with	The Committee is Chaired by an Independent Director and the majority of Directors are Independent. The Chief Executive Officer attends meetings by invitation.

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

Section	Principle	Degree of Compliance	Remarks
(f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied with	The Committee has taken appropriate actions through Human Resources Department for failures to identify and monitor specific risks in managing the business of the Bank if any. No such instances reported during the period under review.
(g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with	Risk assessment report along with the minutes of the each Committee meeting is placed before the Board at the Board meeting immediately following the Committee meeting for deliberations and concurrence.
(h)	The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied with	A compliance function has been established to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. This function is headed by the Compliance Officer who reports direct to the Board Risk Management Committee.

3 (7) Related Party Transactions

3 (7) (i)	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "Related Parties" for the purposes of this Direction</p> <p>(a) Any of the Bank's subsidiary companies</p> <p>(b) Any of the Bank's associate companies</p> <p>(c) Any of the Directors of the Bank</p> <p>(d) Any of the Bank's Key Management Personnel</p> <p>(e) A close relation of any of the Bank's Directors or Key Management Personnel</p> <p>(f) A shareholder owning a material interest in the Bank;</p> <p>(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</p>	Complied with	A Board approved policy on Related Party transactions is in place to avoid any conflicts of interest.
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Section	Principle	Degree of Compliance	Remarks
3 (7) (ii) & (iii)	The Board shall ensure that the Bank does not engage in transactions with Related Parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business. In this context, "more favourable treatment" shall mean and include treatment, including the	Complied with	A formal policy to enhance the transparency of Related Party Transactions is put in place by Board of Directors. Steps have been taken by the Board to avoid any conflicts of interest that may arise in transacting with 'related parties'. Further, the Board ensures that no related party benefits from favourable treatment. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with that what is applied to transactions between the Bank and its unrelated customers.
(a)	Granting of "Total Net Accommodation" to Related Parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction (i) "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation (ii) The "Total Net Accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such Related Parties in the Bank's share capital and debt instruments with a maturity of 5 years or more		
(b)	Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counter party.		
(c)	Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties.		
(d)	Providing services to or receiving services from a Related-Party without an evaluation procedure.		
(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.		

Section	Principle	Degree of Compliance	Remarks
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	<p>The Board approved Related Party Transactions Policy contains provisions to ensure compliance. This policy elaborates the approved securities and limits for such related parties.</p> <p>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.</p>
3 (7) (v)			
(a)	Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied with	A formal policy to enhance the transparency of Related Party Transactions is put in place by Board of Directors.
(b)	Where such security is not provided by the period as provided in Direction 3(7) (v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.		
(c)	Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.		
(d)	This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.		

Section	Principle	Degree of Compliance	Remarks
3 (7) (vi)	A Bank shall not grant any accommodation or “more favourable treatment” relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	Complied with	No accommodation has been granted to any employee of the Bank on more favourable terms unless under general staff loan scheme applicable for all employees of the Bank.
3 (7) (vii)	No accommodation granted by a Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied with	A process is in place. No such instances noted during the period under review.
3 (8)	Disclosures		
3 (8) (i)	The Board shall ensure that: <ul style="list-style-type: none"> (i) Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and (ii) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English 	Complied with	Relevant Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.

Section	Principle	Degree of Compliance	Remarks
3 (8) (ii)	The Board has made the following minimum disclosures in the Annual Report:		
(a)	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Complied with	Compliance with applicable accounting standards and regulatory requirements have been reported under the 'Directors' Responsibility for Financial Reporting' on pages 132 and 133 the 'CEO's and CFO's Responsibility Statement' on page 134 and Note No. 02 on 'Statement of Compliance' to the Financial Statements on page 144.
(b)	A report by the Board on the Bank's internal control mechanism that confirms that the Financial Reporting System has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied with	The Directors' Statement on Internal Controls over financial reportings is included in the Annual Report 2016 on pages 111 to 112.
(c)	The external Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii) (b) above, in respect of any statements prepared or published after 31st December 2008.	Complied with	Assurance Report by auditors under Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 - Assurance Reports for Banks on Directors' Statement on Internal Controls has been obtained and included in the Annual Report 2016 on page 113.
(d)	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank.	Complied with	<p>Details of the Directors are given on pages 28 to 33 under profiles of the Directors.</p> <p>The aggregate value of Directors' transactions with the Bank has been disclosed in Note No. 46.4 to the Financial Statements on page 203.</p> <p>The aggregate value of the remuneration paid (salaries, fees and benefits) to the Board of Directors (including CEO) is disclosed in note No. 46.3 to the Financial Statements on page 202.</p>

Section	Principle	Degree of Compliance	Remarks												
(e)	Total net accommodation as defined in 3(7) (iii) granted to each category of Related Parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Complied with	<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>7.75</td><td>0.09</td></tr><tr><td>KMP & Close Family Members</td><td>84.59</td><td>0.99</td></tr><tr><td>Entities Controlled by Directors, Shareholders owing Material Interest and Close Family Members</td><td>4,311.23</td><td>50.32</td></tr></table>	Category of Related Party Transaction	Rs. Mn	%	Directors and Close Family Members	7.75	0.09	KMP & Close Family Members	84.59	0.99	Entities Controlled by Directors, Shareholders owing Material Interest and Close Family Members	4,311.23	50.32
			Category of Related Party Transaction	Rs. Mn	%										
			Directors and Close Family Members	7.75	0.09										
			KMP & Close Family Members	84.59	0.99										
Entities Controlled by Directors, Shareholders owing Material Interest and Close Family Members	4,311.23	50.32													
(f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied with	<p>The aggregate values of remuneration paid to Key Management Personnel (as per CBSL guidelines) during the year are as follows;</p> <p>Short term Benefits - Rs.102.78 Mn. Retirement Benefits - Rs.1.41 Mn.</p> <p>The aggregate value of transactions by Key Management Personnel with the Bank as at the year end are as follows;</p> <p>Loans, Advances and Credit Card Balances - Rs. 73.42 Mn. Deposits - Rs. 97.77 Mn.</p>												
(g)	The external Auditor's certification of the compliance with these Directions in the Annual Corporate Governance Reports.	Complied with	The Bank has obtained the certification of the external auditors on compliance with these Directions on Corporate Governance and relevant disclosures are included on page 83 of the Annual Report under 'Corporate Governance Report'.												
(h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied with	Relevant disclosures are included on page 135 of the Annual Report under 'Bank's Compliance with Prudential Requirements' and on pages 132 to 133 under 'Directors' Responsibility for Financial Reporting'.												
(i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Complied with	There were no significant supervisory concerns on lapses in Bank's Risk Management or non compliance with this Direction that have been pointed out by the Director of Bank Supervision and requested by the Monetary Board to be disclosed to the public.												

Attendance of Directors During the Year 2016

Name of Director	Board Meetings		Board Audit Committee		Board Credit Committee		Board Integrated Risk Management Committee		Board Human Resources & Remuneration Committee		Board Nomination Committee		Board Strategic Planning Committee		Board Related Party Transactions Review Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
Eshana De Silva	12	12	-	-	12	12	-	-	-	-	04	04	-	-	03	03
Dimuth Prasanna	12	12	04	03	04	04	04	04	03	03	-	-	-	-	-	-
Mohan Abeynaïke	12	12	15	15	-	-	-	-	05	05	04	04	04	04	03	03
Tharana Thoradeniya	12	12	-	-	12	10	-	-	05	05	-	-	04	04	-	-
Takashi Igarashi	12	12	-	-	-	-	04	04	-	-	-	-	-	-	-	-
Toyohiko Murakami	12	12	15	08	-	-	-	-	-	-	-	-	-	-	-	-
Sarath Rangamuwa	12	12	-	-	12	12	-	-	-	-	-	-	-	-	-	-
A. A. Wijepala	12	12	15	15	-	-	-	-	-	-	-	-	02	02	03	03
Jayaraja Chandrasekera	12	12	-	-	12	12	-	-	-	-	-	-	-	-	-	-
Nihal Kekulawala	05	05	04	04	-	-	01	01	02	01	02	02	02	02	-	-
Dimantha Seneviratne	12	11	15	14	12	10	04	04	05	05	04	03	04	04	03	03
Nimal Perera	08	08	-	-	-	-	-	-	02	02	02	02	-	-	-	-
Mangala Goonatilleke	04	04	06	06	-	-	02	02	-	-	-	-	01	01	-	-

Present Composition of Directors

Name of the Director	Category
Eshana De Silva	Independent, Non - Executive Director
Harris Premaratne	Independent, Non - Executive Director
Mohan Abeynaïke	Independent, Non - Executive Director
Tharana Thoradeniya	Non - Executive Director
Dimuth Prasanna	Non - Executive Director
Takashi Igarashi	Independent, Non - Executive Director
Toyohiko Murakami	Non - Executive Director
Sarath Rangamuwa	Non - Executive Director
A. A. Wijepala	Independent, Non - Executive Director
Jayaraja Chandrasekera	Non - Executive Director
Nihal Kekulawala	Non - Executive Director

Responsibility

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

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

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

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

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

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

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

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The Annual Audit Plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, Regulatory Authorities and the Management and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on pages 114 to 115.
- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. In adopting Sri Lanka Accounting Standards comprising LKASs and SLFRSs, progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure were made whilst further strengthening of processes namely review and disclosures with regard to financial risk management, fair value and management information.

- The comments made by the External Auditors in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors in 2016 in connection with the internal control system over financial reporting will be dealt with in the future.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of 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 2016 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 113 of this Annual Report.

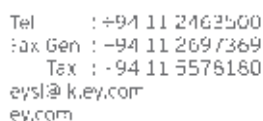
By Order of the Board

Mohan Abeynaike
Chairman - Board
Audit Committee

Eshana De Silva
Chairman

Lalith Jayakody
Acting Chief
Executive Officer

Colombo, Sri Lanka
22nd February 2017



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 end of the year.

Mohan Abeynaike

Chairman, Independent Non - Executive Director/Senior Director

Toyohiko Murakami

Non - Executive Director

A. A. Wijepala

Independent Non - Executive Director

Nihal Kekulawala

Independent Non - Executive Director (Appointed in August 2016)

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

Mr. Nihal Kekulawala was re-appointed to the Board and Audit Committee in August 2016. Mr. Kekulawala's profile is given on page no 33 of the Annual Report.

Mr. Mangala Goonatilleke resigned from the Committee with effect from May 2016 while Mr. Dimuth Prasanna served as a member of the Committee from June to August 2016.

The Committee wishes to place on record its appreciation of the valuable contribution made by Mr. Mangala Goonatilleke and Mr. Dimuth Prasanna while they served as members of the Committee.

Role of the Committee

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

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

- Monitor the integrity of the Financial Statements and review of significant reporting judgements contained therein to be in compliance with Sri Lanka Accounting Standards.
- Review the internal financial and other controls and risk management systems.

- Review the Bank's compliance with legal and regulatory requirements.
- Monitor and review the effectiveness of the internal audit function.
- Make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
- Review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process.
- Ensure that Bank's policies are firmly committed to the highest standards of good Corporate Governance Practices and operations conform to the highest ethical standards, in the best interest of all stakeholders.

Meetings

The committee held 15 meetings during the period under review. Head of Internal Audit functioned as the secretary to the committee.

The Chief Executive Officer, Chief Operating Officer, Chief Risk Officer, Chief Financial Officer and Deputy General Manager-Retail Banking attend the meetings by invitation. Members of the Senior Management of the Bank were invited to participate at meetings as and when required. The proceedings of the Audit Committee meetings are regularly reported to the Board of Directors.

Activities

The committee carried out the following activities.

Financial Statements

The Committee reviewed the effectiveness of the financial reporting system in place to ensure that information provided to the stakeholders is reliable and is in strict adherence and compliance with the requirements of Sri Lanka Accounting Standards and disclosure requirements. The Committee reviewed the Quarterly and Annual Financial Statements of the Bank prior to approval by the Board.

Regulatory Compliance

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

Internal Audit

During the year under review, the Committee reviewed the independence, objectivity and performance of the Internal Audit Department and established a process for annual assessment

of the internal control systems. The annual audit plan for the year was based on a Risk Based Planning methodology for risk assessment of auditable areas. The Committee reviewed the audit reports presented by the Internal Audit Department together with Management responses. The Committee regularly reviewed and monitored the internal audit coverage of the annual audit plan.

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

External Audit

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

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

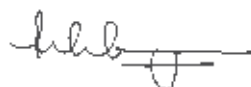
The Committee reviewed the non-audit services provided by the Auditors to ensure that such services were not falling within the restricted services or provision of such service will not impair the External Auditors' independence and objectivity.

The Audit Committee having evaluated the independence and performance of the External Auditors has recommended to the Board of Directors that M/s Ernst & Young, Chartered Accountants, be reappointed as the auditors of the Bank for the financial year ending 31st December 2017, subject to the approval of the Shareholders at the Annual General Meeting.

Conclusion

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

On behalf of the Board Audit Committee



Mohan Abeynaike
Chairman
Board Audit Committee

Colombo, Sri Lanka
22nd February 2017

Board Integrated Risk Management Committee Report

Composition of the Committee

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

Nihal Kekulawala

Chairman, Non - Executive Director (Appointed in August 2016)

Takashi Igarashi

Independent Non - Executive Director

Dimuth Prasanna

Non - Executive Director

Dimantha Seneviratne

Chief Executive Officer/Director

(Resigned w.e.f. 31st December 2016)

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

Responsibilities and Meetings

The overall risk management is assigned to the Board Integrated Risk Management Committee of the Board of Directors which is an independent Committee as per the corporate governance rules and guidelines on Integrated Risk Management Framework issued by the Central Bank of Sri Lanka. The main scope of the Committee is to review and monitor overall risk management policy framework of the Bank. It regularly reviews the key risk indicators under Credit, Market, Operational, Compliance, Reputational, Strategic, Legal and other contingencies and monitors the risk goals and regulatory limits under each of these risk indicators. Further, directives on risk management are given by the Board of Directors as well. Meetings are conducted once a quarter and during the year four meetings were held.

At these meetings adequate deliberations were made to review achievement of the set risk goals and progress made between the reporting periods indicated by risk dashboards. Follow up actions if any initiated via circulation of meeting minutes among heads of responsible business, operational and support units and heads of each risk unit are also discussed at the following committee meeting. Subsequent to each meeting, the relevant minutes along with risk commentary were submitted to the Board of Directors for their review and guidance.

Functions of the Committee

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

- Regular review of Internal Capital Adequacy Assessment Process (ICAAP) and assessment of the Bank's business strategy, growth plans and governance to ensure risk based capital adequacy.
 - Determine and review the risk indicators and risk goals on a regular basis on Credit, Market, Operational and all other significant risk areas to which the Bank is exposed.
 - Peruse and review the activities and progress of under mentioned management committees set up for the management of major risks embedded in the day to day activities of the Bank.
 - i) Assets and Liabilities Committee (ALCO)
 - ii) Credit Risk Management Committee
 - iii) Operational Risk Management Committee
 - iv) Treasury Risk Assessment Committee
 - Regular review and update of all policies relating to risk management and introduction of new risk related policies and procedures.
 - Recommendation of improvements to Bank's strategy for lending, business expansion and growth, and review mitigating factors for adverse impact on Bank's overall strategy.
 - Extensive deliberation on the potential risk arising from various risk drivers and take measures proactively.
 - Review business continuity plan, business impact analysis and disaster recovery plan of the Bank.
- During the year, committee initiated following measures in addition to the regular review and management of predetermined risk goals.
- Introduction of integrated risk management model by quantifying each risk drivers defined by the committee.
 - Introduction of risk dashboards creating value in the meeting atmosphere.
 - Setting up baseline security standards ensuring the information security.

- Committee revised the sector wise exposures by taking in to account the industry volatility and the strategic direction stipulated by the management time to time.
- Development and approval of the Social and Environment Management policy managing the risk associated with the environment and social factors in the loan book.

The Committee ensures that adequate mechanisms are available to identify, transfer, manage and mitigate the risks identified and recognised as per Bank's risk management policies and during the year the Committee has reviewed the process of identification, evaluation and management of all risk indicators and 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
22nd February 2017

Composition of the Committee

The Board Human Resources and Remuneration Committee comprised of following members of the Board as at the year end.

Tharana Thoradeniya

Chairman, Non - Executive Director

Dimuth Prasanna

Non - Executive Director

Mohan Abeynaike

Independent Non - Executive Director/Senior Director

Nihal Kekulawala

Independent Non - Executive Director

(Appointed in October 2016)

Dimantha Seneviratne

Chief Executive Officer/Director

(Resigned w.e.f. 31st December 2016)

Responsibilities and Meetings

The Committee held five meetings during the year 2016. Chief Operating Officer, Head of Human Resources and other members of the Management attend meetings by invitation.

The Key Functions of the Committee are as follows;

- Determine the remuneration relating to Chief Executive Officer and Key Management Personnel of the Bank.
- Set up goals and targets for the Chief Executive Officer and Key Management Personnel.
- Evaluate the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- Ensure that salaries are reviewed periodically and evaluated against industry norms.
- Approve the selection of the candidates for the positions of Manager and above grades whilst providing their salary as well as other terms and conditions for the selected candidates.
- Approve interview panels for recruitment to other positions.
- Review key positions regularly and have a succession plan in place.

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.

In this respect the Board of Directors revised the salary scales of Executive and below grades with effect from 1st January 2016 as per the recommendation of the Committee. Further a special performance related bonus was granted based on employee individual performance rating since the Bank level performance targets are also met.

On behalf of the Board Human Resources and Remuneration Committee



Tharana Thoradeniya

Chairman

Board Human Resources and Remuneration Committee

Colombo, Sri Lanka

22nd February 2017

Composition of the Committee

The Board Nomination Committee is comprised of the following Directors;

Eshana De Silva

Chairman, Independent Non - Executive Director

Mohan Abeynaïke

Independent Non - Executive Director/Senior Director

Nihal Kekulawala

Non - Executive Director

The Company Secretary functions as the Secretary of the Committee.

Four Committee meetings were held during the year.

Responsibilities

The main responsibilities of the Committee are:

- To formulate and implement the procedures to select/appoint new Directors and Chief Executive Officer.
- In the appointment of Directors, the Board proposes the names and seeks the Nomination Committee recommendation for the suitability of the persons proposed. Nomination Committee after careful consideration submits their recommendation to the Board. The Board on receipt of the recommendation of the Nomination Committee submits the affidavit and the Declaration of the proposed Director to Central Bank of Sri Lanka for their approval, and once approval is received the Board makes the formal appointment.
- To set eligibility criteria encompassing academic and professional qualifications, experience and other attributes essential for appointment and promotion to the post of Chief Executive Officer.
- To review and recommend, from time to time, the additional/new expertise capabilities necessary and the succession plan for retiring directors.
- To ensure, in text and action, that Directors and Chief Executive Officer are fit and proper persons to hold such positions in terms of the specified statutes and other mandatory directives.

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

On behalf of the Board Nomination Committee



Eshana De Silva

Chairman

Board Nomination Committee

Colombo, Sri Lanka

22nd February 2017

Composition of the Committee

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

Eshana De Silva

Chairman, Independent Non - Executive Director

Dimuth Prasanna

Non - Executive Director (Appointed in August 2016)

Tharana Thoradeniya

Non - Executive Director

Sarath Rangamuwa

Non - Executive Director

Jayaraja Chandrasekera

Non - Executive Director

Dimantha Seneviratne

Chief Executive Officer/Director

(Resigned w.e.f. 31st December 2016)

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

Responsibilities and Meetings

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

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

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

Functions of the Committee

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

- Review and sanction credit proposals submitted which requires the approval of the Committee as per the delegated lending authorities in force within the Bank.
- Review the changes to credit policy initiated by the management of the Bank and approve them or recommend them for the approval of the Board of Directors.
- Ensure compliance of lending activities of the Bank with approved credit policies of the Bank and statutory and regulatory requirements and guidelines.
- Credit portfolio reviews through regular reports on new facilities granted, margin trading and share backed advances, advances to special segments, advances under special lending products, exposure to pawning and gold loans, watch list of accounts and monthly non performing advances report.
- Define credit approval framework and assign delegated approval limits for lending as per Bank's credit policy.
- Review and recommend credit proposals to the Board Related Party Transaction Review Committee or Board of Directors for which Board approval is required as per Bank's credit policy and regulatory guidelines.
- Ensure credit risk exposures are kept within risk tolerance in order to maximise Bank's risk adjusted rate of return.

- Monitor on an ongoing basis, the Bank's credit portfolio quality, review periodic credit portfolio reports and assess performance of the lending book.
- Ensure all new lending products are reviewed from a credit risk management perspective with appropriate controls to maintain the quality of the portfolio.
- Review high risk exposures periodically and take corrective action keeping them within the risk tolerance.

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

On behalf of the Board Credit Committee



Eshana De Silva
Chairman
Board Credit Committee

Colombo, Sri Lanka
22nd February 2017

Board Strategic Planning Committee Report

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

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

Composition of the Committee

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

Mohan Abeynaike

Chairman, Independent Non - Executive Director/Senior Director

Tharana Thoradeniya

Non - Executive Director

A. A. Wijepala

Independent Non - Executive Director

Nihal Kekulawala

Independent Non - Executive Director (Appointed in August 2016)

The profiles of the members are given on pages 30 to 33 of the Annual Report. Chief Executive Officer and Corporate Management team attend the meetings by invitation. The Chief Financial Officer acts as the Secretary to the Committee.

Roles and Responsibilities

- (i) Approving the periodic strategic plan/significant amendments to the existing strategic plan and recommending same to the Board.
- a) Strategic direction and Strategic Thinking: Providing the strategic direction and strategic thinking of the Board to the management in the development and implementation of the Bank's strategic plan. The committee shall provide guidance to the management on competitive strategies to achieve the Bank's strategic objectives leading to the achievement of the mission and vision.

- b) Monitoring the strategic planning process: To oversee the strategy formulation process leading to preparation of strategic plan.
- c) Monitoring and control: Ensure post implementation reviews of the strategic initiatives are carried out every quarter in comparison to KPI's and provide advice on further improvements to strategies and alternative course of action on non-achievement of KPI's.
- d) Examining Key Strategies: Examine the effectiveness of key strategies for achieving the goals and objectives and guiding management towards implementation of strategic decisions taken by the Board.
- e) Creating a risk based culture and resilience to environmental changes: To advice on the possible impact of external environmental changes such as of regulatory, economic and political spheres and to propose alternative course of action to achieve objectives.
- f) Reviewing internal strengths, resources, capabilities and weaknesses of the Bank and to provide guidelines to the management.
- (ii) Ensuring that the annual budget is prepared to accomplish the goals and objectives of the strategic plan and recommending the same to the Board.
- (iii) Reviewing the actual performance against the strategic plan as well as the annual budget.
- (iv) Reviewing the appropriateness of current Vision, Mission and strategic positioning of the Bank.
- (v) Approving all strategic investment decisions such as mergers and acquisitions and recommending the same to the Board.
- (vi) Reviewing the adequacy and composition of the Bank's capital structure in the context of the growth targets.

Meetings

The Committee met on four occasions during the year and the Committee members worked with dedication to fulfill its obligations. The attendance of the Committee members is stated in the Corporate Governance Report on page 110 of the Annual Report.

Reporting to the Board

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

Performance

The Committee reviewed the quarterly updates during 2016 of the Bank's three year Strategic Plan for 2015-17 period. Annual Budget for the year 2017 was reviewed and directed to incorporate changes before submitting to the Board of Directors for their approval.

The Committee engaged in discussions with the Corporate Management and Strategic Planning team to determine the strategic direction for the Bank for the year 2017 which formed the basis for the development of the Strategic Plan for this period.

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

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

On behalf of the Board Strategic Planning Committee



Mohan Abeynaike

Chairman

Board Strategic Planning Committee

Colombo, Sri Lanka
22nd February 2017

With the view to further strengthening the monitoring mechanism for all related party transactions, the Bank has constituted the Board Related Party Transaction Review Committee in 2015 to assist the Board to review all related party transactions performed by the Bank in compliance with the provisions contained in the section 9 of Colombo Stock Exchange listing rules. The committee was constituted by majority of Independent Directors of the Board and had its first meeting in February 2016.

Composition of the Committee

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

Eshana De Silva

Chairman, Independent Non - Executive Director

Mohan Abeynaike

Independent Non - Executive Director

A. A. Wijepala

Independent Non - Executive Director

Dimantha Seneviratne

Chief Executive Officer/Director

(Resigned w.e.f. 31st December 2016)

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

Role of the Committee

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

The mandate of the committee includes inter-alia followings:

- To formulate and implement a well established procedure, which comprehensively adheres to the regulatory requirement of monitoring all related party transactions of the Bank.
- Independently review all accommodations to related parties and provide comments/observations to the Board of Directors prior to the final approval.

- Review all related party transactions in line with the regulatory requirements.
- Making immediate market disclosure on any applicable related party transactions as required under Section 9 of the Listing Requirements of the Colombo Stock Exchange
- Making appropriate disclosures in the annual report on related party transactions as per the regulatory guidelines.
- In the case of recurrent related party transactions, committee may set up guidelines for the Senior Management to follow up its ongoing dealings with the Related Parties, subject to annual review of such guidelines and appropriateness of the transaction.

Meetings

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

Conclusion

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

On behalf of the Board Related Party Transactions Review Committee



Eshana De Silva

Chairman

Board Related Party Transaction Review Committee

Colombo, Sri Lanka
22nd February 2017

Your Directors have pleasure in presenting to the members their report together with the Audited Financial Statements for the year ended 31st December 2016.

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 22nd of February 2017.

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 :

	2016 Rs. 000	2015 Rs. 000
Profit before Taxation	1,807,580	1,542,130
Taxation	(555,875)	(501,612)
Profit for the Year	1,251,705	1,040,518
Other Comprehensive Income	(5,312)	(1,874)
Retained Profit Brought Forward	3,711,605	2,718,777
Transfer to Reserve Fund	(62,585)	(52,027)
Realisation of Revaluation Reserve	6,210	6,210
Dividend Paid	(147,521)	-
Un-appropriated Profit to be Carried Forward	4,754,101	3,711,604

Financial Statements

The Financial Statements of the Bank are given on pages 140 to 207 of this Annual Report.

Income

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

	2016 Rs. 000	2015 Rs. 000
Gross Income	15,144,742	10,759,138

Shareholders' Funds and Reserves

The Bank's total reserves as at 31st December 2016 stood at Rs.6,872,145,370/-. This comprises a Statutory Reserve Fund of Rs.304,581,356/-, Revaluation Reserve of Rs.264,496,888/- and Retained Earnings of Rs.4,754,101,424/-. The movement in Revaluation Reserve and Statutory Reserve Fund and are shown in Note 36 and 37 to the Financial Statements.

Auditors' Report

The auditors of the Bank are Messrs Ernst & Young, Chartered Accountants. Their report on the Financial Statements is given on page 139. 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 144 to 157.

Directors' Interest Register

Under the provisions of Section 192 of the Companies Act No. 07 of 2007, the Interest Register is maintained by the Bank. The Directors have made the necessary declarations which are recorded in the Interest register and is available for inspection in terms of the Act. The particulars of the Directors' Interest in Contracts are given in pages 128 to 129 of the Annual Report.

Donations

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

Directorate

The names of the Directors of the Bank during the period 01.01.2016 to date are given below and changes occurred in the composition of the Board during this period. The classification of Directors into 'Executive', 'Non - Executive' and 'Independent Non - Executive' Directors are given against the names as per the Central Bank of Sri Lanka (CBSL) mandatory rules on Corporate Governance under the Banking Act directions.

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

Eshana De Silva	Independent, Non - Executive Director since July 2008. Appointed as 'Deputy Chairman' in April 2012 and as 'Chairman' in September 2016.
Harris Premaratne	Appointed as an Independent Non - Executive Director on 19th January 2017 and as Deputy Chairman on 25th January 2017.
Mohan Abeynaïke	Independent Non - Executive Director since October, 2014. Appointed as the 'Senior Director' in February 2015.
Tharana Thoradeniya	Non - Executive Director since June 2010.
Dimuth Prasanna	Non - Executive Director since May, 2012. Appointed as 'Deputy Chairman' in September 2016 upto 25th January 2017.
Takashi Igarashi	Independent Non - Executive Director since October, 2012.
Toyohiko Murakami	Non - Executive Director since April, 2013.
Sarath Rangamuwa	Non - Executive Director since August, 2014.
A. A. Wijepala	Independent Non - Executive Director since May 2015.
Jayaraja Chandrasekera	Non - Executive Director since May 2015.
Nihal Kekulawala	Non - Executive Director since August 2016.
Nimal Perera	Non - Executive Director since September 2007. Appointed as 'Deputy Chairman' in March 2008 and as 'Chairman' in April 2012 and resigned in August 2016 upon completion of 9 Years.
Mangala Goonatilleke	Non - Executive Director since August 2008 and resigned in May 2016.
Dimantha Seneviratne	Director/Chief Executive Officer since March, 2014 and Resigned w.e.f. 31st December 2016.

Re-elections

In terms of Article No's. 82 and 83 of the Articles of Association of the Bank Mohan Abeynaïke and Sarath Rangamuwa 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 Nihal Kekulawala and Harris Premaratne being eligible offers 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 pages 128 to 129 of the Annual Report.

Directors' Interest in Shares

	No. of Shares As at 31.12.2016	No. of Shares As at 01.01.2016
Eshana De Silva	1,288,639	1,288,639
Dimuth Prasanna	20,000	20,000
Mohan Abeynaïke	-	-
Tharana Thoradeniya	36	36
Takashi Igarashi	-	-
Toyohiko Murakami	-	-
Sarath Rangamuwa	-	-
A. A. Wijepala	-	-
Jayaraja Chandrasekera	100	100
Nihal Kekulawala	-	-
Dimantha Seneviratne	29,000	14,000

External Auditors

In accordance with the Companies Act No. 7 of 2007, a resolution for the re-appointment of Messrs Ernst & Young Chartered Accountants, to the Bank is being proposed at the Annual General Meeting. Audit Fees and Non Audit Fees payable to Ernst & Young for the year under review amounted to Rs. 4,123,000/- and Rs. 931,202/- respectively.

Stated Capital

The Stated Capital of the Bank is Rs.1,548,965,702/-. The details are given in Note 35 to the Financial Statements.

Internal Controls

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

Directors' Responsibility for Financial Reporting

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

Corporate Governance

Since the Licensed Commercial Banks have been exempted from the Colombo Stock Exchange Corporate Governance Rules, the Bank has complied with the CBSL, Banking Act Directions on Corporate Governance and a detailed statement is given on pages 81 to 109.

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.213,585,135/- during 2016, details of which are given in Note 25 to the Financial Statements. Expenditure on Intangible Asset at cost amounted to Rs.19,289,296/- during 2016, details of which are given in Note 26 to the Financial Statements.

Statutory Payments

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

Shareholding

The number of registered shareholders of the Bank as at 31st December 2016 was 4,050 compared to 4,063 as at 31st December 2015. The schedule indicating the shareholder's analysis is on pages 221 to 223.

Debentures

The details of all Debentures of the Bank are given in Note 34 to the Financial Statements.

Register of Directors and Secretaries

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

Board Committees

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

New Branches

Three new branches were opened during the year under review, bringing the total number of branches to 82 at the end of 2016.

Provision for Taxation

Taxable income for the year was charged at 28% in accordance with Income tax legislations. Deferred tax was calculated based on the Balance Sheet Liability Method in accordance with Sri Lanka Accounting Standards.

Annual General Meeting

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

The Annual General Meeting will be held at "The Kingsbury Hotel" on 31st March 2017. The Notice of Meeting can be found on page 230.

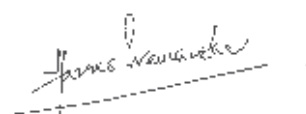
Going Concern

The Directors after making necessary inquiries and reviews including reviews of the Bank's ensuing year budget for capital expenditure requirements, future prospects and risk and cash flows have a reasonable expectation that the Bank has adequate resources to continue operations in the foreseeable future.

For and on behalf of the Board of Directors



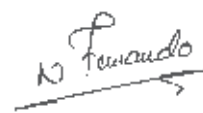
Eshana De Silva
Chairman



Harris Premaratne
Deputy Chairman



Lalith Jayakody
Acting Chief Executive Officer



Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
22nd February 2017

Directors' Interest Register

Director's / Company Name	Relationship	Accommodation Granted / Deposits / Borrowings	Balance Outstanding as at 31.12.2016
Eshana De Silva			
Esna Power (Pvt) Ltd	Director	Deposits	8,752,713
Plumbago Lanka (Pvt) Ltd	Director	Deposits	1,283,367
Dimuth Prasanna			
Grand Mark (Pvt) Ltd	Chairman	Loans and Advances	89,278
Tekro Holdings (Pvt) Ltd	Managing Director	Deposits	1,742,045
Wise Property Solutions (Pvt) Ltd	Managing Director	Loans and Advances	6,189,805
Country Energy (Pvt) Ltd	Director	Deposits	63,612
Royal Porcelain (Pvt) Ltd	Director	Loans and Advances	522,117
Royal Ceramics Lanka PLC	Director	Loans and Advances	220,040
		Deposits	19,852,995
La Forteresse (Pvt) Ltd	Director	Deposits	23,251
Lewis Brown Air Services (Pvt) Ltd	Director	Deposits	3,454,747
Lanka Tiles PLC	Director	Deposits	367,864,384
Rocell Bathware Ltd	Director	Loans and Advances	64,043,295
		Deposits	1,808,485
		Off Balance Sheet Accommodation	93,886,275
Delmege Insurance Brokers (Pvt) Ltd	Director	Deposits	58,877,108
Delmege Forsyth & Co.(Shipping) Ltd	Director	Deposits	20,081,445
Tharana Thoradeniya			
Rocell Bathware Ltd	CEO	Loans and Advances	64,043,295
		Deposits	1,808,485
		Off Balance Sheet Accommodation	93,886,275
Royal Ceramics Lanka PLC	Director	Loans and Advances	220,040
		Deposits	19,852,995
Royal Porcelain (Pvt) Ltd	Director	Deposits	522,117
Greener Water Ltd	Director	Deposits	4,358,607
Lanka Walltiles PLC	Director	Loans and Advances	130,764
		Deposits	23,112
Vallibel Plantation Management Ltd	Director	Deposits	123,404

Director's / Company Name	Relationship	Accommodation Granted / Deposits / Borrowings	Balance Outstanding as at 31.12.2016
Takashi Igarashi			
NWS Management Services (Pvt) Ltd	Director	Deposits	104,943
NWS Holdings (Pvt) Ltd	Director	Deposits	486
Prime Ocean Foods (Pvt) Ltd	Director	Deposits	54,670
Cey Agri Plantations (Pvt) Ltd	Director	Deposits	1,617
Toyohiko Murakami			
Bansei Holdings LK (Pvt) Ltd	Chairman	Loans and Advances	2,937,396
		Deposits	150,373,790
Bansei Royal Resorts Hikkaduwa PLC	Deputy Chairman	Deposits	59,170,093
Bansei Securities Capital (Pvt) Ltd	Director	Deposits	2,351,017
		Repo Borrowings	64,014,729
Bansei & NWS Consultancy (Pvt) Ltd	Director	Deposits	109,766
Vallibel Finance PLC	Director	Loans and Advances	630,271,473
		Deposits	1,653,508,667
Hikkaduwa Hotel Holdings (Pvt) Ltd	Director	Deposits	2,452,493
Sarath Ranganuwa			
Vallibel Finance PLC	Director	Loans and Advances	630,271,473
		Deposits	1,653,508,667
Nihal Kekulawala			
Lanka Walltiles PLC	Director	Loans and Advances	130,764
		Deposits	23,112
Dimantha Seneviratne *			
Credit Information Bureau of Sri Lanka	Director	Deposits	1,584
* (Resigned from the Bank / Board w.e.f. 31.12.2016)			

Other Directorships

Eshana De Silva

Chairman

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

Harris Premaratne

Deputy Chairman

Company Name	Position
1. Softlogic Finance PLC	Deputy Chairman
2. Softlogic Capital PLC	Director
3. Softlogic Holdings PLC	Director
4. Asiri Hospitals Holdings PLC	Director
5. Asiri Surgical Hospital PLC	Director
6. Central Hospital Ltd	Director

Mohan Abeynaikie

Senior Director

Company Name	Position
1. Asia Pacific Investments (Pvt) Ltd	Chairman
2. Siyapatha Finance PLC	Deputy Chairman
3. Asia Pacific Films (Pvt) Ltd	Director

Tharana Thoradeniya

Director

Company Name	Position
1. Rocell Bathware Ltd	CEO
2. Royal Ceramics Lanka PLC	Director - Marketing & Business Development
3. Hayleys Fibre PLC	Director
4. Delmege (Pvt) Ltd	Director
5. Royal Porcelain (Pvt) Ltd	Director - Marketing & Business Development
6. Royal Ceramics Distributors (Pvt) Ltd	Director - Marketing & Business Development
7. Rocell Ceramics Ltd	Director
8. Dipped Products (Thailand) Limited	Director
9. Greener Water Limited	Director
10. Rocell Properties Ltd	Director
11. Lanka Floor Tiles PLC	Director
12. Lanka Walltiles PLC	Director
13. Lanka Ceramics PLC	Director
14. Vallibel Plantation Management Ltd	Director
15. UniDil Packaging (Pvt) Ltd	Director
16. Fentons Ltd	Director

Dimuth Prasanna

Director

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

Takashi Igarashi

Director

Company Name	Position
1. Ramboda Falls Hotels PLC	Chairman
2. NWS Holdings (Pvt) Ltd	Director
3. NWS Management Services (Pvt) Ltd	Director
4. Prime Ocean Foods (Pvt) Ltd	Director
5. Cey Agri Plantations (Pvt) Ltd	Director

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

Sarath Rangamuwa

Director

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

Jayaraja Chandrasekera

Director

Company Name	Position
1. Zenith BPO (Pvt) Ltd	Director

Nihal Kekulawala

Director

Company Name	Position
1. Lanka Walltiles PLC	Director
2. Kassapa Leisure Ltd	Director
3. Continental Insurance Lanka Ltd	Director

The above Directorships are as at 22nd February 2017.

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Bank prepared in accordance with the Provisions of the Companies Act No. 07 of 2007 is set out in the following statements. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Report of the External Auditors given on page 139 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 2016, 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 Senior Manager - Finance, the person responsible for their preparation, as required by the Act. Financial Statements of the Bank have been signed by Two Directors, Acting Chief Executive Officer and the Company Secretary of the Bank on 22nd February 2017 as required by the 150 (1) of the Companies Act No. 07 of 2007.

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

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

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

- (ii) The judgements and estimates that are reasonable and prudent are made.

- (iii) All applicable accounting standards, as relevant, have been followed.

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

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

The Directors have also instituted an effective and comprehensive system of internal controls. This comprises internal checks, internal audits and the whole system of financial and other controls required to carry on the banking business in an orderly manner, safeguard assets, prevent and detect frauds and other irregularities and secure as far as practicable, the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2016 is given on pages 111 & 112 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 113 of the Annual Report.

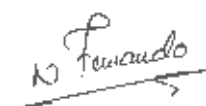
The Bank's External Auditors, Messrs Ernst and Young carried out reviews and sample checks on the system of Internal Controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them together with all financial records, related data and minutes of shareholders' and Directors meetings and expressed their opinion which appears as reported by them on page 139 of this Annual Report.

Further, as required by Section 56 (2) of the Companies Act No. 07 of 2007, the Directors have confirmed that the Bank, based on the information available, satisfies the solvency test immediately after the distribution of dividends, in accordance with Section 57 of the Companies Act No. 07 of 2007, and has obtained a certificate from external auditors, prior to declaring dividends.

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

A handwritten signature in black ink, appearing to read 'N Fernando', with a horizontal line drawn underneath it.

Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
22nd February 2017

The Financial Statements of Pan Asia Banking Corporation PLC ("The Bank") for the year ended 31st December 2016 are prepared and presented in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, Companies Act No.7 of 2007, Sri Lanka Accounting and Auditing Standards Act No.15 of 1995, the Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations, and Guidelines issued by the Central Bank of Sri Lanka, and the Listing Rules of the Colombo Stock Exchange. The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank. There are no material departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The significant accounting policies and estimates that involved a high degree of 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 2016, as required by the Banking Act Direction No.11 of 2007, result of which is given on pages 111 & 112 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 113 of the Annual Report.

The Financial Statements of the Bank were audited by Messrs Ernst & Young, Chartered Accountants, the independent External Auditors. Their report is given on page 139 of the Annual Report. The Audit Committee of the Bank meets periodically with the Internal Audit team and the

independent External Auditors to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee approves the audit and non audit services provided by External Auditors, Messrs Ernst & Young, in order to ensure that the provision of such services does not impair independence of the External Auditors and does not contravene the guidelines issued by Central Bank of Sri Lanka on permitted non-audit services.

The Bank has taken appropriate action to implement New Sri Lanka Accounting Standards with effective from 1st January 2012 and all the processes are in place to address the requirements of the new Sri Lanka Accounting Standards.

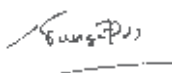
We confirm to the best of our knowledge;

- The Bank has complied with all applicable laws, regulations and prudential requirements and in the opinion of the Bank's legal council, the litigations which are currently pending will not have a material impact on the reported financial results or future operations of the Bank.
- All taxes, duties, levies and all statutory payments by the Bank and all contributions, levies and taxes paid on behalf of and in respect of the employees of the Bank as at the Statement of Financial Position date have been paid or where relevant provided for.



Lalith Jayakody

Acting Chief Executive Officer



Suranga Fernando

Senior Manager - Finance

Colombo, Sri Lanka
22nd February 2017

Compliance risk is the risk arising out of non compliance with applicable laws, regulations, code of conduct and standard of best practice. This may result in regulatory sanctions, material financial loss or reputation loss to the Bank.

The Compliance Unit

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

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

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

Compliance Reporting

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

The Compliance Report includes,

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

Compliance Culture

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

Anti Money Laundering (AML) Compliance

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

A separate policy for AML has been approved by the Board of Directors and is reviewed periodically, while the Compliance Unit carries out sample testing bank-wide to ensure adherence.

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

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

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

New Product Development Framework

All new products and procedures are carefully checked to ensure they comply with the regulatory requirements prior to approval and launch. All operating instructions for various activities are reviewed and signed off by the Compliance, Risk Management, Legal, Finance and by Internal Audit Departments.

2015



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2016

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

2017

1st Quarter Unaudited Interim Results 2017	May 2017
2nd Quarter Unaudited Interim Results 2017	August 2017
3rd Quarter Unaudited Interim Results 2017	November 2017
4th Quarter Unaudited Interim Results 2017	February 2018
Annual Report for Year 2017	March 2018
23rd Annual General Meeting	March 2018



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TO THE SHAREHOLDERS OF PAN ASIA BANKING CORPORATION PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Pan Asia Banking Corporation PLC, ("the Bank"), which comprise the statement of financial position as at 31st December 2016, and the statement of comprehensive income, statement of changes in equity, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 140 to 207.

Board's Responsibility for the Financial Statements

The Board of Directors ("the Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal controls as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31st December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act No. 07 of 2007, we state the following:

- The basis of opinion and Scope and Limitations of the audit are as stated above.
- In our opinion :
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank,
 - The financial statements of the Bank, comply with the requirements of Section 151 of the Companies Act No. 07 of 2007.

22nd February 2017
Colombo, Sri Lanka

Partners: WE H Fernando FCA FCMA, V P D Gnanapavan FCA FCMA, R N de Saram ACA FCMA, Ms. N A de Silva FCA, Ms. V A De Silva FCA, WE B S Fernando FCA FCMA,
Ms. K R M Fernando FCA FCMA, Ms. I R H Fernando FCA, A P A Karasikera FCA FCMA, A Perera FCA, D K Hularagamage FCA FCMA, J R H de Silva FCA FCMA,
Ms. A A L Dissanayake FCA FCMA, Ms. C G S Manatunga FCA, M V S Mahipala ACA ACMA, R E Wijesuriya FCA FCMA
Principal: P M V Ruben FCA FCMA

A member firm of Ernst & Young Global Limited

Statement of Comprehensive Income

Year ended 31st December	Notes	2016 Rs.	2015 Rs.
Gross Income		15,144,742,246	10,759,137,567
Interest Income		13,366,542,935	9,038,970,898
Interest Expense		8,733,164,415	5,076,382,144
Net Interest Income	4	4,633,378,520	3,962,588,754
Fee and Commission Income		1,175,173,525	863,025,029
Fee and Commission Expense		69,452,631	48,430,131
Net Fee and Commission Income	5	1,105,720,894	814,594,898
Net Gain from Trading	6	275,095,387	303,958,013
Net Gain from Financial Investments	7	382,500	162,000
Other Operating Income	8	327,547,899	553,021,627
Total Operating Income		6,342,125,200	5,634,325,292
Impairment for Loans and Other Losses	9	528,108,430	750,525,148
Net Operating Income		5,814,016,770	4,883,800,144
Personnel Expenses	10	1,613,604,180	1,389,141,825
Other Operating Expenses	11	1,909,567,592	1,590,658,016
Total Operating Expenses		3,523,171,772	2,979,799,841
Operating Profit Before Value Added Tax and Nation Building Tax on Financial Services		2,290,844,998	1,904,000,303
Value Added Tax and Nation Building Tax on Financial Services	12	483,265,444	361,870,606
Profit Before Tax		1,807,579,554	1,542,129,697
Income Tax Expense	13	555,874,732	501,611,752
Profit for the Year		1,251,704,822	1,040,517,945
Other Comprehensive Income			
Actuarial Losses on Defined Benefit Plans	33	(7,377,697)	(2,602,554)
Deferred Tax Effect on Above	13	2,065,755	728,715
Other Comprehensive Income for the Year Net of Tax		(5,311,942)	(1,873,839)
Total Comprehensive Income for the Year		1,246,392,880	1,038,644,106
Earnings Per Share - Basic/Diluted	14	4.24	3.53
Dividends Per Share	15	-	0.50

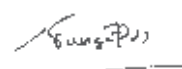
The Accounting Policies and Notes on pages 144 to 207 form an integral part of the Financial Statements.

As at 31st December	Notes	2016 Rs.	2015 Rs.
Assets			
Cash and Cash Equivalents	16	1,703,449,614	1,393,268,199
Balances with Central Bank of Sri Lanka	17	6,218,564,125	4,166,740,570
Placements with Banks	18	75,096,992	-
Derivative Financial Instruments	19	26,279,628	1,543,767
Financial Assets - Held for Trading	20	629,744,707	14,706,753
Loans and Receivables to Banks	21	754,131,408	944,835,683
Loans and Receivables to Other Customers	22	95,833,759,322	84,185,516,138
Financial Investments - Available for Sale	23	6,157,847	6,157,847
Financial Investments - Held to Maturity	24	21,753,428,446	14,667,281,738
Property, Plant and Equipment	25	1,489,391,189	1,470,347,845
Intangible Assets	26	315,704,246	329,127,199
Other Assets	27	645,371,728	603,445,928
Total Assets		129,451,079,252	107,782,971,667
Liabilities			
Due to Banks	28	14,238,391,649	7,515,609,587
Derivative Financial Instruments	19	-	2,135,543
Due to Other Customers	29	91,456,409,639	77,697,054,969
Term Debt and Other Borrowed Funds	30	6,762,947,720	7,096,951,451
Current Tax Liabilities		411,032,731	114,935,472
Deferred Tax Liabilities	13	445,769,180	391,739,422
Other Provisions and Accruals	31	170,399,266	190,688,114
Other Liabilities	32	1,143,812,823	1,085,998,389
Debentures	34	7,950,170,874	7,914,585,687
Total Liabilities		122,578,933,882	102,009,698,634
Equity			
Stated Capital	35	1,548,965,702	1,548,965,702
Retained Earnings		4,754,101,424	3,711,604,606
Revaluation Reserve	36	264,496,888	270,706,610
Statutory Reserve Fund	37	304,581,356	241,996,115
Total Equity		6,872,145,370	5,773,273,033
Total Liabilities and Equity		129,451,079,252	107,782,971,667
Commitments and Contingencies	44	28,003,930,128	26,223,207,833

The Accounting Policies and Notes on pages 144 to 207 form an integral part of the Financial Statements.

Certification

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



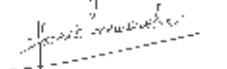
Suranga Fernando

Senior Manager - Finance

The Board of Directors are responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by:



Eshana De Silva
Chairman



Harris Premaratne
Deputy Chairman



Lalith Jayakody
Acting Chief Executive Officer



Nayantha Fernando
Company Secretary

22nd February 2017
Colombo, Sri Lanka

Statement of Changes In Equity

	Notes	Stated Capital	Reserves			Total
		Ordinary Voting Shares Rs.	Retained Earnings Rs.	Statutory Reserve Fund Rs.	Revaluation Reserve Rs.	
Balance as at 1st January 2015		1,548,965,702	2,718,776,673	189,970,219	276,916,333	4,734,628,927
Profit for the Year		-	1,040,517,945	-	-	1,040,517,945
Other Comprehensive Income for the Year		-	(1,873,839)	-	-	(1,873,839)
Transfer to Statutory Reserve Fund	37	-	(52,025,896)	52,025,896	-	-
Realisation of Revaluation Reserve	36	-	6,209,723	-	(6,209,723)	-
Balance as at 31st December 2015		1,548,965,702	3,711,604,606	241,996,115	270,706,610	5,773,273,033
Profit for the Year		-	1,251,704,822	-	-	1,251,704,822
Other Comprehensive Income for the Year		-	(5,311,942)	-	-	(5,311,942)
Transfer to Statutory Reserve Fund	37	-	(62,585,241)	62,585,241	-	-
Final Cash Dividend for 2015		-	(147,520,543)	-	-	(147,520,543)
Realisation of Revaluation Reserve	36	-	6,209,722	-	(6,209,722)	-
Balance as at 31st December 2016		1,548,965,702	4,754,101,424	304,581,356	264,496,888	6,872,145,370

The Accounting Policies and Notes on pages 144 to 207 form an integral part of the Financial Statements.

Year ended 31st December	Notes	2016 Rs.	2015 Rs.
Cash Flows from Operating Activities			
Profit Before Tax		1,807,579,554	1,542,129,697
Adjustment for:			
Other Non Cash Items Included in Profit Before Tax	42	795,988,820	1,008,752,993
Change in Operating Assets	42	(14,719,170,509)	(16,648,852,565)
Change in Operating Liabilities	42	17,556,291,289	21,358,683,306
Interest Expense on Debentures		796,010,093	477,681,762
Interest Expense on Term Borrowings		155,779,260	86,898,255
Defined Benefits Paid	33	(11,697,957)	(8,025,278)
Income Tax Paid		(205,159,294)	(99,352,639)
Net Cash Flows from Operating Activities		6,175,621,256	7,717,915,531
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	25	(213,585,135)	(191,356,506)
Proceeds from the Sale of Property, Plant and Equipment		6,208,819	74,246
Net Proceeds from Financial Investments - Held to Maturity		(7,086,146,708)	(12,103,924,550)
Purchase of Intangible Assets	26	(19,289,296)	(321,225,461)
Net Cash Flows Used in Investing Activities		(7,312,812,320)	(12,616,432,271)
Cash Flows from Financing Activities			
Proceeds from the Issue of Debentures		-	4,000,000,000
Net Proceeds from Term Borrowings	30	2,579,332,500	1,442,100,000
Interest Paid on Debentures		(760,424,906)	(398,050,929)
Interest Paid on Term Borrowings		(148,917,580)	(86,670,065)
Dividends Paid to Equity Holders		(147,520,543)	-
Net Cash Flows from Financing Activities		1,522,469,471	4,957,379,006
Net Increase in Cash and Cash Equivalents		385,278,407	58,862,266
Cash and Cash Equivalents at 1st January		1,393,268,199	1,334,405,933
Cash and Cash Equivalents at 31st December	42	1,778,546,606	1,393,268,199

The Accounting Policies and Notes on pages 144 to 207 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 Reporting Entity

Pan Asia Banking Corporation PLC ("the Bank") is a public quoted company incorporated on 6th March 1995 with limited liability and domiciled in Sri Lanka. It is a Licensed Commercial Bank registered under Banking Act No. 33 of 1988 and amendments thereto. The registered office of the Bank is situated at No. 450, Galle Road, Colombo 03. The staff strength of the Bank as at 31st December 2016 is 1,458 (2015:1,420). The Ordinary Shares and Debentures of the Bank have a listing on the Colombo Stock Exchange. The Bank does not have an identifiable parent of its own. Further, the Bank does not hold any investments in the form of subsidiary, joint venture or associate.

1.2 Principal Activities and Nature of Operations

The principal activities of the Bank continued to be Banking and related activities such as accepting deposits, personal banking, trade financing, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease and hire purchase financing, pawning and gold loans, issuing of local and international credit cards, tele-banking facilities, internet and SMS banking.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Bank for the year ended 31st December 2016 have been prepared in accordance with Sri Lanka Accounting Standards comprising LKASs and SLFRSs as issued by the Institute of Chartered Accountants of Sri Lanka and comply with requirements of Companies Act No.07 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. The Financial Statements includes Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows and Notes to the Financial Statements.

2.2 Basis of Measurement

The Financial Statements have been prepared on a historical cost basis, except for Financial Assets Held for Trading, Available for Sale Financial Investments, Derivative Financial Instruments, Defined Benefit plan Obligations and Freehold Land and Building stated at revalued amounts which are the fair values at the date of revaluation as explained in Note 25 to the Financial Statements, all of which have been measured at fair value. The Financial Statements are presented in Sri Lankan Rupees except when otherwise indicated.

2.3 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

2.4 Approval of Financial Statements by Directors

The Financial Statements for the year ended 31st December 2016 were authorised for issue by the Board of Directors on 22nd February 2017.

2.5 Presentation of Financial Statements

The Bank presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 43.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Bank.

2.6 Significant Accounting Judgements, Estimates and Assumptions

In the process of applying the Bank's accounting policies, management has exercised judgements and estimates in determining the amounts recognised in the Financial Statements. The most significant uses of judgements and estimates are as follows:

2.6.1 Going Concern

The Bank's Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.6.2 Classification of Financial Assets and Liabilities

The Bank's Accounting Policies provide scope for assets and liabilities to be classified at inception into different accounting categories. The classification of financial instruments is given in Note 38, 'Analysis of Financial Assets and Liabilities by Measurement Basis'.

2.6.3 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgement include and model inputs such as volatility for discount rates. The valuation of financial instruments is described in more detail in Note 39.

2.6.4 Impairment Losses on Loans and Receivables

The Bank reviews its individually significant Loans and Receivables at each Statement of Financial Position date to assess whether an impairment loss should be recorded in Profit or Loss in the Statement of Comprehensive Income. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and Receivables that have been assessed individually and found not to be impaired and all individually insignificant Loans and Receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgement on the effect of concentrations of risks and economic data.

The impairment losses on Loans and Receivables are disclosed in more detail in Note 9, 21 and Note 22.

2.6.5 Impairment of Financial Investments - Available for Sale

The Bank also records impairment charges on Available for Sale Equity Investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

The impairment losses on Financial Investments - Available for Sale are disclosed in Note 9.

2.6.6 Fair Value of Property, Plant and Equipment

The Freehold Land and Buildings of the Bank are reflected at fair value. The Management determined that these constitute a class of assets under SLFRS 13, based on the nature, characteristics and risks of the property. The Bank engages independent valuers to determine fair value of Land and Building. When current market prices of

similar assets are available, such evidence is considered in estimating fair values of these assets using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

2.6.7 Useful Lives, Methods of Depreciation and Residual Values of the Property, Plant and Equipment

The Bank reviews the useful lives, methods of depreciation and residual values of Property, Plant and Equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.6.8 Defined Benefit Plan Obligation

The cost of the Defined Benefit Plan Obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are reviewed at each reporting date and disclosed in Note 33.

2.6.9 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.6.10 Provisions, Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

2.6.11 Distinction between Investment Properties and Property, Plant and Equipment

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

Notes to the Financial Statements

2.7 Changes in Accounting Policies and Reclassification

2.7.1 Changes in Accounting Policies

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

2.7.2 Reclassification

The presentation and classification of the Financial Statements of the previous years have been amended, where relevant, for better presentation and to be comparable with those of the current year. The details of the reclassifications are given in Note 50 to the Financial Statements.

2.8 Summary of Significant Accounting Policies

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

2.8.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lankan Rupees (Rs.) which is also the functional currency.

Transactions and Balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other Operating Income' in the Statement of Comprehensive Income (Profit or Loss).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

Forward foreign exchange contracts and currency swaps are valued at the forward market rate ruling on the date of the Statement of Financial Position. Unrealised gains and losses are dealt under 'Net Gain from Trading' in the Statement of Comprehensive Income (Profit or Loss).

2.8.2 Financial instruments - Initial Recognition and Subsequent Measurement

(i) Date of Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are recognised in the Statement of Comprehensive Income.

(iii) 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net Gain/(loss) from Trading'.

(iv) Classification and Subsequent Measurement of Financial Assets

At the inception a financial asset is classified into one of the following:

- a) Financial Assets at Fair Value through Profit or Loss
 - i) Financial Assets Held for Trading
 - ii) Financial Assets Designated at Fair Value through Profit or Loss
- b) Held to Maturity Financial Assets
- c) Loans and Receivables
- d) Financial Assets Available-for-Sale

The subsequent measurement of financial assets depends on their classification.

(v) Derivatives Recorded at Fair Value through Profit or Loss

The Bank uses derivatives such as forward foreign exchange contracts and currency swaps. Derivatives are recorded at fair value and carried as "assets" when their fair value is positive and as "liabilities" when their fair value is negative. Changes in the fair value of derivatives are included in 'Net Gain from Trading' in Statement of Comprehensive Income (Profit or loss).

(vi) Financial Assets at Fair Value through Profit or Loss

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

(a) Financial Assets Held for Trading

Financial Assets Held for Trading are recorded in the Statement of Financial Position at fair value. Changes in fair value, results if buying and selling and dividend income are recognised in 'Net Gain from Trading' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities, equities and unit trusts that have been acquired principally for the purpose of selling or repurchasing in the near term.

(b) Financial Assets Designated at Fair Value through Profit or Loss

The Bank designates financial assets at fair value through profit or loss in the following circumstances:

- Such designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring the assets
- The assets are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The asset contains one or more embedded derivatives that significantly modify the cash flows that would otherwise have been required under the contract.

Financial assets at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial instruments designated at fair value through profit or loss' in the Statement of Comprehensive Income (Profit or Loss). Interest earned is accrued in 'Interest Income', using the effective interest rate (EIR) method, while dividend income is recorded in 'Other Operating Income' when the right to receive the payment has been established

The Bank has not designated any financial assets upon initial recognition as designated at fair value through profit or loss.

(vii) Financial Investments - Available for Sale

Available for Sale investments include unquoted equity. Equity investments classified as 'Available for Sale' are those which are neither classified as held for trading nor designated at fair value through profit or loss. The Bank has not designated any loans or receivables as 'Available for Sale'. After initial measurement, Financial Investments - Available for Sale are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (Other comprehensive income). When the investment is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income (Profit or loss) in 'Net Gain from Financial Investments'. Where the Bank holds more than one investment in the same security, they are deemed to be disposed off on a first-in first-out basis. Dividends earned whilst holding Available for Sale Financial Investments' are recognised in the Statement of Comprehensive Income (Profit or loss) as 'Net Gain from Financial Investments' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in 'Impairment for Loans and Other Losses' in the Statement of Comprehensive Income (Profit or loss) and removed from Equity.

(viii) Financial Investments- Held to Maturity

Financial Investments - Held to Maturity are non derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the Effective Interest Rate. The amortisation is included in 'Interest income' in the Statement of Comprehensive Income (Profit or loss). The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income (Profit or loss) in 'Impairment for Loans and Other Losses' and are detailed under Note 9.

If the Bank were to sell or reclassify more than an insignificant amount of Financial Investments - Held to Maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as 'Available for Sale'. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

(ix) Placement with Banks and Loans & Receivables to Banks and Other Customers

'Placement with Banks, Loans & Receivables to Banks and Loans and Receivables to Other Customers' include non derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at 'Fair Value through Profit or Loss'
- Those that the Bank, upon initial recognition, designates as 'Available for Sale'
- Those for which the Bank may not recover substantially all of its initial investment, other than because of Credit deterioration

After initial measurement, 'Placements with Banks', 'Loans and Receivables to Banks' and 'Loans and Receivable to Other Customers' are subsequently measured at amortised cost using the Effective Interest Rate less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the Effective Interest Rate. The amortisation is included in 'Interest income' in the Statement of Comprehensive Income (Profit or loss). The losses arising from impairment are recognised in the Statement of Comprehensive Income (Profit or loss) in 'Impairment for Loans and Other Losses' and detailed under Note 9.

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(x) Debentures and Unsecured Term Debt

These represent the funds borrowed by the Bank for long term funding requirements. Unsecured Term Debt and Debentures are recognised, where the substance of the contractual arrangement results in the Bank having an obligation to deliver cash. After initial measurement, Debentures and Term Debt are subsequently measured at amortised cost using the Effective Interest Rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the Effective Interest Rate.

2.8.3 De-recognition of Financial Assets and Financial Liabilities

(i) Financial Assets

A financial asset is de-recognised when:

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
- The Bank has transferred substantially all the risks and rewards of the asset
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(ii) Financial Liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.8.4 Repurchase and Reverse Repurchase Agreements

Securities Sold under agreements to repurchase at a specified future date are not de-recognised from the

Statement of Financial Position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as a liability with a corresponding obligation to return it, including accrued interest as a liability within 'Repurchase Agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the Effective Interest Rate.

Conversely, Securities Purchased under Agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net Interest Income' and is accrued over the life of the agreement using the Effective Interest Rate.

2.8.5 Impairment of Financial Assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter Bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments; and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income (Profit or loss). Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as a part of 'Interest income'.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after then impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write off is later recovered, the recovery is credited to the 'Other Operating Income'.

The present value of the estimated future cash flows is discounted at the financial asset's original Effective Interest Rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current Effective Interest Rate. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new Effective Interest Rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, collateral type, past due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of impairment losses on financial assets carried at amortised cost are given in Note 9 and, an analysis of the impairment allowance on Loans and Receivables are given in Note 22.

(ii) Financial Investments - Available for Sale

For Financial Investments - Available for Sale, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Bank treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Other Comprehensive Income is removed from equity and recognised in the Profit or loss in Statement of Comprehensive Income. Impairment losses on equity investments are not reversed through the Profit or Loss in Statement of Comprehensive Income. Increases in the fair value after impairment are recognised in Other Comprehensive Income.

(iii) Renegotiated Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been re-negotiated, any impairment is measured using the original Effective Interest Rate as calculated before the modification of terms and the loan is no longer considered 'past due'. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original Effective Interest Rate.

(iv) Write off of Financial Assets Carried at Amortised Cost

Financial assets and the related impairment allowance accounts are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

(v) Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, property, letters of credit/guarantees, receivables, inventories and other movable and non movable assets. The fair value of collateral is generally assessed, at a minimum, at inception and thereafter value changes are monitored in accordance with policies and procedures of the Bank. However, some collateral, for example, securities relating to margin requirements, are valued on daily basis. To the extent possible, the Bank uses active market data for valuing

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financial assets, held as collateral. Non-financial collateral, such as freehold property is valued based on valuation reports and other independent sources.

2.8.6 Re-classification of Financial Instruments

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurements categories are not permitted following initial recognition.

A non derivative financial asset 'Held for Trading' that would have met the definition of 'Loans and Receivables' (if the financial asset had not been required to be classified as 'Held for Trading' at initial recognition) may be reclassified out of the 'Fair Value through Profit or Loss' category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Financial assets are transferred out of the Available-for Sale category to the 'Loan and Receivables' category where they would have met the definition of a 'Loan and Receivables' at the date of reclassification and the Bank has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held to Maturity assets are reclassified to the 'Available-for Sale' category if the portfolio becomes tainted following the sale of other than an insignificant amount of 'Held to Maturity' assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the 'Available-for-sale' category into 'Loans and Receivables', any gain or loss on those assets recognised in Shareholders' Equity prior to the date of reclassification is amortised to Profit or Loss over the remaining life of the financial asset, using the effective interest method.

Reclassification is at the discretion of management, and is determined on an instrument by instrument basis.

2.8.7 Fair Value Measurement

The Bank measures financial instruments such as Financial Assets Held for Trading, Financial Derivatives, and non-financial assets such as certain classes of Property, Plant and Equipment at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised under the respective notes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- Or
- In the absence of a principal market, in the most

advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as properties and significant liabilities, such as defined benefit obligations. The selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Management in conjunction with the Bank's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 39.2.

2.8.8 Offsetting Financial Instruments

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

2.8.9 Leases

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.8.9.1 Operating Leases

Bank as a Lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income (Profit or loss) on a straight line basis over the lease term.

Bank as a Lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

2.8.9.2 Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as 'Finance Leases'. Amounts receivable under finance leases are included under 'Loans and Receivables to Customers' in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

2.8.10 Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest Income and Expense

For all financial instruments measured at amortised cost and financial instruments at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate. Effective Interest Rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original Effective Interest Rate and the change in carrying amount is recorded as 'Interest income' for financial assets and 'Interest expense' for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the Effective Interest Rate from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and Commission Income and Expense

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and Commission Income comprise mainly of fees received from customers for guarantees and other services provided by the Bank together with foreign and domestic tariffs. Such income is recognised as revenue as the services are provided. Fee income can be divided into the following two categories:

Fee Income Earned from Services that are provided Over a Certain Period of Time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on straight line basis.

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Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend Income

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

(iv) Net Gain from Trading

Results arising from trading activities include all gains and losses from buying and selling, changes in fair value and dividend income for 'Financial Assets Held for Trading' transactions.

(v) Expenditure Recognition

Expenses are recognised in Profit or Loss in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to Profit or Loss in the Statement of Comprehensive Income. For the purpose of presentation of the Statement of Comprehensive Income, the 'function of expenses' method has been adopted, on the basis that it presents fairly the elements of the Bank's performance.

(vi) Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided and are included under Personnel Expenses in the Statement of Comprehensive Income (Profit or Loss). A liability is recognised for the amounts expected to be paid under short-term bonus if the Bank has a present legal or constructive obligation to pay this amount as a result past service rendered by the employee and the obligation can be measured reliably.

2.8.11 Cash and Cash Equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises local and foreign currency, amounts due from Foreign Banks on demand or with an original maturity of three months or less and Placements with Banks with original maturities of three months or less from the date of placement with insignificant risk of changes in value.

2.8.12 Property, Plant and Equipment

Property, Plant and Equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

2.8.12.1 Basis of Recognition

Property, Plant and Equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Bank and cost of the asset can be reliably measured.

2.8.12.2 Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding cost of day to day servicing) as explained in 2.8.12.5 below. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of Computer Hardware. When parts of an item of property or equipment have different useful lives, they are accounted for as separate Items (major components) of Property, Plant and Equipment.

2.8.12.3 Cost Model

The Bank applies cost model to Property, Plant and Equipment except for Freehold Land and Buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

2.8.12.4 Revaluation Model

The Bank applies the revaluation model to the entire class of Freehold Land and Buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold Land and Buildings of the Bank are revalued every three years on a roll over basis or more frequently if the fair values are substantially different from the carrying amounts to ensure that the carrying amounts do not differ materially from the fair values at the reporting date.

When asset's carrying amount is increased as a result of a revaluation the increase shall be recognised in Other Comprehensive Income and accumulated in equity under the heading of 'Revaluation Reserve'. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in Profit or Loss. However, the decrease shall be recognised in Other Comprehensive Income to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under the heading of 'Revaluation Reserve'.

A transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying

amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation reserve relating to the particular asset being sold/discharged off is transferred to retained earnings upon de-recognition.

2.8.12.5 Subsequent Costs

The subsequent cost of replacing a component of an item of Property, Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Bank and its cost can be reliably measured. The costs of day to day servicing of Property, Plant and Equipment are charged to Profit or Loss as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

2.8.12.6 De-recognition

The carrying amount of an item of Property, Plant and Equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of Property, Plant and Equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in profit or loss when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is de-recognised.

2.8.12.7 Depreciation

The Bank provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Bank of the different types of assets, except for which are disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is de-recognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Depreciation is calculated using the straight line method to write down the cost of Property, Plant and Equipment to their residual values over their estimated useful lives. Freehold Land is not depreciated. The estimated useful lives are as follows:

Buildings	- 40 Years
Office Equipment	- 6 Years
Computer Hardware and Equipment	- 6 - 10 Years
Furniture, Fittings and Fixtures	- 5 - 10 Years
Motor Vehicles	- 5 Years

The depreciation method and residual values of assets are reviewed at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

2.8.13 Intangible Assets

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

2.8.13.1 Basis of Recognition

An intangible asset is recognised only when it is probable that the expected future economic benefits that are attributable to it will flow to the Bank and its cost can be measured reliably.

2.8.13.2 Measurement

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

2.8.13.3 Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

2.8.13.4 Amortisation

Intangible assets are amortised on straight line basis in profit or loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Bank. The estimated useful lives are as follows:

Core Banking Software Licenses	- 15 years
Other 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 are not recognised as part of the cost of an intangible asset at a later date.

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2.8.13.5 Retirement and Disposal

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in Profit or Loss.

2.8.14 Other Assets

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

2.8.15 Impairment of Non Financial Assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its Value in Use. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An assessment is made for assets at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or cash generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Profit or loss in the Statement of Comprehensive Income.

2.8.16 Provisions

Provisions are recognised when the Bank has a present 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.

2.8.16.1 Operational Risk Events

Provisions for operational risk events are recognised for losses incurred by the Bank which do not relate directly to amounts of principal outstanding for loans and advances. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

2.8.17 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. Operating lease commitments of the Bank and pending legal claims against the Bank too form part of commitments of the Bank. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. But these contingent liabilities do contain credit risk and are therefore form part of the overall risk of the Bank.

Details of commitments and contingencies are given in Note 44.

2.8.17.1 Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements within 'Other Liabilities' at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or loss in the Statement of Comprehensive Income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in Profit or Loss in the Statement of Comprehensive Income under 'Impairment for Loans and Other Losses'. The premium received is recognised in the Profit or Loss in the Statement of Comprehensive Income in 'Net Fee and Commission Income' on a straight line basis over the life of the guarantee.

2.8.17.2 Legal Claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank

has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

2.8.18 Employee Retirement Benefits

2.8.18.1 Defined Contribution Plan Costs

Defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to a defined contribution plan are recognised as 'a Personnel Expenses' in the Profit or Loss in the Statement of Comprehensive Income in the periods during which services are rendered by employees. Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with the respective Statutes and Regulations. Accordingly, the Bank contributes 12% - 15% and 3 % of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and is recognised as an expense under "Personnel Expenses".

2.8.18.2 Defined Benefit Plan Costs

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The liability recognised in the Statement of Financial Position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the 'Projected Unit Credit Method'. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the liability. Provision has been made in the financial statements for retiring gratuities from the first year of service for all employees, in conformity with LKAS 19: 'Employee Benefits'.

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for payment to an employee arises only after the completion of 5 years continued service. The liability is not externally funded.

2.8.19 Other Liabilities

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

2.8.20 Taxes

2.8.20.1 Current Tax

The provision for income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No.10 of 2006 as amended subsequently.

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to

be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

2.8.20.2 Deferred Tax

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

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

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

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

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

2.8.20.3 Economic Service Charge

As per provisions of the Economic Service Charge (ESC) Act No.13 of 2006 and amendments thereafter, ESC is payable at 0.25% on Bank's liable turnover and is deductible from income tax payable.

2.8.20.4 Value Added Tax on Financial Services

Value Added Tax on Financial Services is calculated at 11% & 15% for relevant taxable periods of the year in accordance with the provisions of the Value Added Tax Act No.14 of 2002 and amendments thereto.

2.8.20.5 Nation Building Tax on Financial Services

Nation Building Tax on Financial Services is calculated at the rate of 2% in accordance with the provisions of the Nation Building Tax Act No.09 of 2009 and amendments thereto.

Notes to the Financial Statements

2.8.20.6 Crop Insurance Levy

Crop Insurance Levy is calculated at the rate of 1% of the profit after tax in accordance with Finance Act No.12 of 2013.

2.8.21 Statutory Reserve Fund

"Statutory Reserve Fund" represents the statutory requirement in terms of Section 20 (1) and (2) of the Banking Act No. 30 of 1988.

2.8.22 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. The Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.8.23 Materiality and Aggregation

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

2.8.24 Related Party Transactions

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is being charged.

2.8.25 Events after the Reporting Period

All the material events after end of the reporting period have been considered and appropriate adjustments/disclosures have been made in Note 47 to the Financial Statements.

2.9 Segment Reporting

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

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

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured

differently from operating profits or losses in the Financial Statements. Income taxes and overhead expenses are managed on an entity basis and are not allocated to operating segments. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Revenue from transactions with no single external customer or a counterparty amounted to 10% or more of the Bank's total revenue during the year.

2.10 Regulatory Provisions

2.10.1 Deposit Insurance and Liquidity Support Scheme

In terms of the Banking Act Direction No. 05 of 2010 "Insurance of Deposit Liabilities" issued on 27th September 2010 and subsequent amendments there to all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No. 01 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. The said scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No. 01 of 2013.

Deposits to be insured include demand, time and savings deposit liabilities and exclude the following;

- a) deposit liabilities to member institutions
- b) deposit liabilities to Government of Sri Lanka
- c) deposit liabilities to Directors, key management personnel and other related parties as defined in Banking Act Direction No.11 of 2007 on Corporate Governance of Licensed Commercial Banks
- d) deposit liabilities held as collateral against any accommodation granted
- e) deposit liabilities falling within the meaning of 'abandoned property' in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceeded financial year and a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

3. NEW ACCOUNTING STANDARDS

The following new accounting standards and amendments/improvements to existing standards which have been issued by the Institute of Chartered Accountants of Sri Lanka (CASL) are not effective as at 31st December 2016. None of these have been early adopted by the Bank.

3.1 Accounting Standards Issued not yet Effective

SLFRS 9 - Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

SLFRS 15 - Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

SLFRS 16: Leases

SLFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model requiring lessees recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a lower value. The Lessors continue to classify leases as operating or finance as SLFRS 16's approach for lessor accounting substantially unchanged from its predecessor.

SLFRS 16 is effective for financial reporting periods beginning on or after 1st January 2019, with early adoption permitted, provided the new Revenue standard, SLFRS 15 Revenue from Contracts with Customers has been applied, or is applied at the same date as SLFRS 16.

The Bank has engaged an external consultant to assist in the implementation of above standards and the project is currently underway. Pending the completion of the detailed impact analysis, possible Impact from SLFRS 9, SLFRS 15 and SLFRS 16 is not reasonably estimable as of the reporting date.

3.2 Amendments to Existing Standards not yet Effective

LKAS 7: Disclosure Initiative - Amendments to LKAS 7

The amendments to LKAS 7: Statement of Cash Flows are

a part of the CASL's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

These amendments are effective for annual periods beginning on or after 1st January 2017, with early application permitted. Application of amendments will result in additional disclosure to be provided by the Bank.

LKAS 12: Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to LKAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of those deductible temporary differences. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings or in another component of equity, as appropriate, without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The above amendments are effective for annual periods beginning on or after 1st January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have significant impact on the Bank.

SLFRS 2: Classification and Measurement of Share-based Payment Transactions - Amendments to SLFRS 2

The CASL issued amendments to SLFRS 2- Share based payments that address three main areas; the effects of vesting conditions on the measurement of a cash settled share based payment transaction, the classification of a share based transactions with net settlement features for withholding tax obligations and accounting where a modification to the terms and conditions of a share based payment transaction changes its classification from cash settled to equity settled.

On adoption, the entities are required to apply the amendments without restating prior year figures. However, retrospective application is permitted if elected all amendments and criteria are met. The amendments are effective for annual periods beginning on or after 1st January 2018 with early application permitted. These amendments are not expected to have significant impact on the Bank.

Notes to the Financial Statements

4 NET INTEREST INCOME

	2016 Rs.	2015 Rs.
Interest Income		
Placements with Banks	5,453,666	5,461,017
Loans and Receivables to Banks	91,502,538	48,672,075
Loans and Receivables to Other Customers	11,384,964,033	8,056,803,155
Financial Investments - Held to Maturity	1,498,173,571	547,920,125
Financial Assets - Held for Trading	218,398,684	189,367,031
Interest Income Accrued on Impaired Loans and Receivables	168,050,443	190,747,495
	13,366,542,935	9,038,970,898
Interest Expense		
Due to Banks	1,198,536,095	174,859,450
Due to Other Customers	6,500,418,208	4,238,107,041
Other Borrowings	238,200,019	185,733,891
Debentures	796,010,093	477,681,762
	8,733,164,415	5,076,382,144
Net Interest Income	4,633,378,520	3,962,588,754

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

	2016 Rs.	2015 Rs.
Interest Income	2,156,945,790	1,092,091,715
Interest Expense	(543,362,702)	(160,198,787)
Net Interest Income	1,613,583,088	931,892,928

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

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

	2016 Rs.	2015 Rs.
Interest Income	13,148,144,251	8,849,603,867
Interest Expense	(8,733,164,415)	(5,076,382,144)
Net Interest Income	4,414,979,836	3,773,221,723

5 NET FEE AND COMMISSION INCOME

	2016 Rs.	2015 Rs.
Net Fee and Commission Income		
Fee and Commission Income	1,175,173,525	863,025,029
Fee and Commission Expense	(69,452,631)	(48,430,131)
	1,105,720,894	814,594,898

	2016 Rs.	2015 Rs.
Comprising		
Loans	457,928,843	242,668,810
Cards	189,334,984	81,026,832
Trade and Remittance	254,851,815	344,185,380
Deposits	152,901,274	105,656,992
Guarantees	50,703,978	41,056,884
	1,105,720,894	814,594,898

The presentation and classification of the previous year have been amended for better presentation and to be comparable with those of the current year. Details of reclassifications are given in the Note 50.

6 NET GAIN FROM TRADING

	2016 Rs.	2015 Rs.
Equities and Unit Trusts		
Realised	107,577,064	63,777,509
Unrealised	(1,983,702)	(1,641,684)
Debt Securities		
Realised	83,656,097	143,456,771
Unrealised	(2,110,380)	(366,600)
Foreign Exchange - Net Forward Forex Gain	87,956,308	98,732,017
	275,095,387	303,958,013

Equities and Unit Trust Income includes the results of buying and selling, dividend income and changes in the fair value of equity securities and units. Debt securities income includes the results of buying and selling and changes in the fair value of debt securities. Foreign Exchange - Net Forward Forex Gain includes foreign exchange differences arising from derivative contracts which are not designated as 'Hedging Instruments'.

7 NET GAIN FROM FINANCIAL INVESTMENTS

	2016 Rs.	2015 Rs.
Financial Investments Available for Sale - Equities	382,500	162,000
	382,500	162,000

8 OTHER OPERATING INCOME

	2016 Rs.	2015 Rs.
Gains on Revaluation of Non Trading Foreign Exchange	320,048,103	544,868,212
Gains on Sale of Property Plant and Equipment	4,237,316	-
Other Income	3,262,480	8,153,415
	327,547,899	553,021,627

The presentation and classification of the previous year have been amended for better presentation and to be comparable with those of the current year. Details of reclassifications are given in the Note 50.

- 8.1 The Bank does not perform interbank foreign currency transactions for trading purposes in the normal course of business. Therefore, no gain or loss generated from such transactions during the year. However, the Bank carry out forward transaction deals pertaining to customer requirements in the normal course of business.

Notes to the Financial Statements

9 IMPAIRMENT FOR LOANS AND OTHER LOSSES

	2016 Rs.	2015 Rs.
Loans and Receivables to Other Customers (Note 22.4)		
Individual Impairment Losses	482,268,162	761,013,114
Collective Impairment Losses	47,008,354	30,625,163
	529,276,516	791,638,277
Other Impairment Reversals	(1,168,086)	(41,113,129)
	528,108,430	750,525,148

There are no impairment losses recognised in the Statement of Comprehensive Income (Profit or loss) with regard to Placements with Banks, Loans and Receivables to Banks, Financial Investments - Held to Maturity and Financial Investments - Available for Sale.

10 PERSONNEL EXPENSES

	2016 Rs.	2015 Rs.
Salaries, Wages and Other Related Expenses	1,369,306,246	1,200,319,871
Defined Contribution Plan Expenses - Employees Provident Fund	131,262,340	110,851,819
Defined Contribution Plan Expenses - Employees Trust Fund	30,797,812	25,928,878
Defined Benefit Plan Expenses (Note 33.1)	46,835,168	36,043,775
Amortisation of Prepaid Staff Expenses	35,402,614	15,997,482
	1,613,604,180	1,389,141,825

11 OTHER OPERATING EXPENSES

	2016 Rs.	2015 Rs.
Directors' Emoluments (Note 11.1)	48,594,141	34,256,716
Auditors' Remuneration	4,123,000	3,880,000
Non Audit Fees to Auditors	931,202	1,207,785
Professional and Legal Expenses	28,048,581	18,477,898
Depreciation on Property, Plant and Equipment	192,570,289	179,430,412
Amortisation of Intangible Assets	32,712,249	42,704,622
Operating Lease Expenses	221,176,590	195,822,274
Administration and Establishment Expenses	484,550,121	399,118,612
Business Development Expenses	259,745,744	190,014,668
Other Expenses	637,115,675	525,745,029
	1,909,567,592	1,590,658,016

11.1 Directors' Emoluments represent Salaries, Bonuses and other related expenses of the Chief Executive Officer and fees paid to Non - Executive Directors including the Chairman.

12 VALUE ADDED TAX AND NATION BUILDING TAX ON FINANCIAL SERVICES

	2016 Rs.	2015 Rs.
Value Added Tax on Financial Services	415,646,939	306,534,162
Nation Building Tax on Financial Services	67,618,505	55,336,444
	483,265,444	361,870,606

13 INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31st December 2016 and 31st December 2015 are:

	2016 Rs.	2015 Rs.
Current Income Tax		
Current Income Tax Charge (Note 13.1)	517,645,887	424,961,606
Over Provision in respect of Previous Years	(17,866,668)	(33,839,753)
Deferred Tax		
Relating to Origination and Reversal of Temporary Differences (Note 13.2)	56,095,513	110,489,899
Income Tax Expense Reported in the Statement of Comprehensive Income (Profit or Loss)	555,874,732	501,611,752

13.1 Reconciliation of the Total Tax Expense

A reconciliation between the tax expense and the accounting profit multiplied by the Statutory Income tax rate for the year ended 31st December 2016 and 31st December 2015 is as follows:

	2016 Rs.	2015 Rs.
Accounting Profit Before Tax	1,807,579,554	1,542,129,697
At Statutory Income Tax Rate of 28%	506,122,275	431,796,316
Non Deductible Expenses	1,126,866,193	902,735,546
Deductible Expenses	(1,030,166,440)	(884,198,170)
Income not Subject to Tax	(64,907,954)	(71,203,566)
Tax Effect of Business of Finance Leasing (Tax Losses)	(20,268,187)	45,831,480
Current Income Tax Charge	517,645,887	424,961,606
Effective Tax Rate (Excluding Deferred tax and Over Provision for Current Income Tax of Prior Years)	29%	28%

13.2 Deferred Tax

The following table shows deferred tax liabilities recorded on the Statement of Financial Position and changes recorded in the Statement of Comprehensive Income (Profit or loss).

	2016			2015		
	Deferred Tax Liabilities (Statement of Financial Position) Rs.	Statement of Comprehensive Income		Deferred Tax Liabilities (Statement of Financial Position) Rs.	Statement of Comprehensive Income	
		Profit or Loss Rs.	Other Comprehensive Income Rs.		Profit or Loss Rs.	Other Comprehensive Income Rs.
Lease Rentals Receivables	433,467,508	88,739,472	-	344,728,036	148,386,938	-
Property, Plant and Equipment	176,236,347	(2,076,413)	-	178,312,760	2,249,906	-
Intangible Assets	39,320,418	15,152,499	-	24,167,919	13,202,870	-
Defined Benefit Plan Obligation	(56,296,935)	(9,838,419)	(2,065,755)	(44,392,761)	(7,845,179)	(728,715)
Impairment of Assets	(60,880,634)	(45,596,986)	-	(15,283,648)	3,975,701	-
Tax Losses	(86,077,524)	9,715,360	-	(95,792,884)	(49,480,337)	-
Total	445,769,180	56,095,513	(2,065,755)	391,739,422	110,489,899	(728,715)

Notes to the Financial Statements

14 EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted Earnings Per Share is calculated by dividing the profit attributable to ordinary equity holders of Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As there were no potential ordinary equity outstanding at year end Diluted Earnings per Share is equal to the Basic Earnings per Share for the year.

The income and share data used in the Basic/Diluted Earnings Per Share calculations are detailed below;

	2016 Rs.	2015 Rs.
Profit Attributable to Ordinary Shareholders (Rs.)	1,251,704,822	1,040,517,945
Weighted Average Number of Ordinary Shares in Issue	295,041,086	295,041,086
Basic/Diluted Earnings Per Share (Rs.)	4.24	3.53

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

15 DIVIDENDS PER SHARE

	2016 Rs.	2015 Rs.
Gross Dividends Paid/Payable to Ordinary Shareholders (Rs.)	-	147,520,543
Number of Ordinary Shares in Issue	-	295,041,086
Dividends Per Share (Rs.)	-	0.50

16 CASH AND CASH EQUIVALENTS

	2016 Rs.	2015 Rs.
Cash in Hand (Note 42)	1,205,764,875	1,255,357,401
Balances with Foreign Banks (Note 42)	497,684,739	137,910,798
	1,703,449,614	1,393,268,199

17 BALANCES WITH CENTRAL BANK OF SRI LANKA

	2016 Rs.	2015 Rs.
Statutory Deposit with the Central Bank of Sri Lanka	6,218,564,125	4,166,740,570
	6,218,564,125	4,166,740,570

As required by the Provisions of Section 93 of Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka according to statutory requirements. Minimum cash reserve requirement as at the Statement of Financial Position Date is 7.5% of the Rupee deposit liabilities of the Domestic Banking Unit. The Statutory Deposit with the Central Bank of Sri Lanka is not available for use in the Bank's day-to-day operations.

18 PLACEMENTS WITH BANKS

	2016 Rs.	2015 Rs.
Placements with Banks in Sri Lanka	75,096,992	-
	75,096,992	-

19 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	2016			2015		
	Assets Rs.	Liabilities Rs.	Notional Amount Rs.	Assets Rs.	Liabilities Rs.	Notional Amount Rs.
Forward Foreign Exchange						
Contracts and Currency Swaps	26,279,628	-	13,569,754,266	1,543,767	2,135,543	12,834,240,004
	26,279,628	-	13,569,754,266	1,543,767	2,135,543	12,834,240,004

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank. The Bank's exposure under derivative contracts are closely monitored as part of the overall management of the Bank's market risk.

Forward Foreign Exchange Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over the counter market and are subject to credit risk and liquidity risk and result in market exposure. The Bank has credit exposure to the counterparties of forward contracts which are settled on gross basis therefore, considered to bear a higher liquidity risk than the futures contracts that are settled on a net basis.

Currency Swaps

Currency Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying foreign currency rate. In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Fair Values

Disclosures concerning the fair value of derivatives are provided in Note 39.

20 FINANCIAL ASSETS - HELD FOR TRADING

	2016 Rs.	2015 Rs.
Quoted Equities (Note 20.1)	12,723,051	14,706,753
Sri Lanka Government Securities - Treasury Bills and Bonds (Note 20.2)	617,021,656	-
	629,744,707	14,706,753

Notes to the Financial Statements

20.1 Quoted Equities

	2016			2015		
	No. of Shares	Cost Rs.	Carrying Amount/Fair Value Rs.	No. of Shares	Cost Rs.	Carrying Amount/Fair Value Rs.
Vallibel One PLC	684,035	17,100,875	12,723,051	684,035	17,100,875	14,706,753
		17,100,875	12,723,051		17,100,875	14,706,753

20.2 Sri Lanka Government Securities - Treasury Bills and Bonds

	2016 Rs.	2015 Rs.
Sri Lanka Government Securities - Treasury Bills and Bonds	617,021,656	-
	617,021,656	-

21 LOANS AND RECEIVABLES TO BANKS

	2016 Rs.	2015 Rs.
Gross Loans and Receivables to Banks (Note 21.1)	754,131,408	944,835,683
Less : Individual Impairment	-	-
Collective Impairment	-	-
	754,131,408	944,835,683

21.1 Product Wise Analysis

	2016 Rs.	2015 Rs.
Loans and Advances		
Term Loans	349,157,377	449,988,011
	349,157,377	449,988,011
Other Receivables		
Debentures - Quoted	404,974,031	404,832,877
Securities Purchased Under Resale Agreements - Banks	-	90,014,795
	404,974,031	494,847,672
	754,131,408	944,835,683

22 LOANS AND RECEIVABLES TO OTHER CUSTOMERS

	2016 Rs.	2015 Rs.
Gross Loans and Receivables	98,509,785,920	86,322,651,611
Less: Individual Impairment (Note 22.4)	(1,693,536,076)	(1,201,653,305)
Collective Impairment (Note 22.4)	(982,490,522)	(935,482,168)
	95,833,759,322	84,185,516,138

22.1 Product wise Analysis

	2016 Rs.	2015 Rs.
Loans and Advances		
Overdrafts	18,446,879,670	17,101,700,681
Trade Finance	3,462,954,581	2,911,458,830
Credit Cards	2,885,196,723	1,466,929,682
Pawning & Ran Loans	2,646,972,447	1,381,923,513
Staff Loans	809,691,534	540,001,982
Term Loans		
Short - term	7,309,019,738	7,722,191,103
Long - term	41,164,605,032	33,591,884,757
Lease Rentals Receivable (Note 45.2)	8,792,505,727	8,320,679,138
Margin Trading Advances	2,447,731,689	2,724,766,374
Others	859,461,979	1,068,804,712
	88,825,019,120	76,830,340,772
Other Receivables		
Sri Lanka Government Securities - Sri Lanka Development Bonds	6,207,879,448	6,245,115,770
Securities Purchased under Resale Agreements - Other Customers	1,683,561,100	984,360,303
Debentures - Quoted	1,793,326,252	2,262,834,766
	9,684,766,800	9,492,310,839
	98,509,785,920	86,322,651,611

22.2 Currency wise Analysis

	2016 Rs.	2015 Rs.
Sri Lankan Rupee	87,761,271,198	75,128,453,840
United States Dollar	8,935,856,642	9,676,145,190
Japan Yen	1,705,198,512	1,426,893,542
Euro	86,043,808	46,151,217
Great Britain Pound	14,661,641	36,119,805
Others	6,754,119	8,888,017
	98,509,785,920	86,322,651,611

Industry-wise analysis of the Loans and Receivables to customers are given in Note 40.2.

22.3 Individually Impaired Loans and Receivables

	2016 Rs.	2015 Rs.
Gross amount of Loans and Receivables individually determined to be impaired, before deducting the Individual Impairment Losses	2,805,083,205	2,131,103,436
Less: Individual Impairment Losses (Note 22.4)	(1,693,536,076)	(1,201,653,305)
Net Exposure	1,111,547,129	929,450,131
Impairment Cover Ratio (Individual Impairment Losses to Gross Individually Impaired Loans & Receivables)	60.37%	56.39%
Impaired Loans and Receivable Ratio (Individually Impaired Loans and Receivables to Gross Loans and Receivables)	2.85%	2.47%

Notes to the Financial Statements

22.4 Movements in Individual and Collective Impairment During the Year

	Individual Impairment Rs.	Collective Impairment Rs.	Total Impairment Rs.
At 1st January 2015	1,923,964,610	1,022,113,404	2,946,078,014
Charge to Profit or Loss (Note 09)	761,013,114	30,625,163	791,638,277
(Write off)/Recoveries during the Year	(1,494,357,844)	(117,256,399)	(1,611,614,243)
Interest Accrued on Impaired Loans and Receivables	(190,747,495)	-	(190,747,495)
Other Movements	201,780,920	-	201,780,920
At 31st December 2015	1,201,653,305	935,482,168	2,137,135,473
At 1st January 2016	1,201,653,305	935,482,168	2,137,135,473
Charge to Profit or Loss (Note 09)	482,268,162	47,008,354	529,276,516
(Write off)/Recoveries during the Year	(18,274,026)	-	(18,274,026)
Interest Accrued on Impaired Loans and Receivables	(168,050,443)	-	(168,050,443)
Other Movements	195,939,078	-	195,939,078
At 31st December 2016	1,693,536,076	982,490,522	2,676,026,598

23 FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

	2016 Rs.	2015 Rs.
Equities - Unquoted (Note 23.1)	6,157,847	6,157,847
	6,157,847	6,157,847

All unquoted Available for Sale Equities are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold these for long term.

23.1 Equities - Unquoted

	2016		2015	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
Credit Information Bureau of Sri Lanka	300	30,000	300	30,000
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	8	4,127,847	8	4,127,847
Lanka Clear (Private) Limited	100,000	1,000,000	100,000	1,000,000
Lanka Financial Services Bureau Limited	100,000	1,000,000	100,000	1,000,000
		6,157,847		6,157,847

24 FINANCIAL INVESTMENTS - HELD TO MATURITY

	2016 Rs.	2015 Rs.
Sri Lanka Government Securities - Treasury Bills and Bonds	21,753,428,446	14,667,281,738
	21,753,428,446	14,667,281,738

24.1 Financial Assets Held to Maturity Pledged as Collateral

Sri Lanka Government Securities - Treasury Bills and Bonds amounting to Rs.13,460,338,177 /- (2015 - Rs. 7,656,800,000/-) are pledged as collateral against the Borrowings under Repurchase Agreements as at the date of the Statement of Financial Position.

25 PROPERTY, PLANT AND EQUIPMENT

25.1 Cost/Fair Value

	Freehold Land	Freehold Buildings	Office Equipments	Computer Hardware & Equipments	Furniture & Fittings	Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At 1st January 2016	492,346,500	466,053,500	343,665,294	463,661,162	521,762,321	10,997,620	2,298,486,397
Additions	-	-	39,050,511	85,217,719	69,116,905	20,200,000	213,585,135
Disposals	-	-	(4,721,964)	(7,696,822)	(6,311,394)	(10,900,000)	(29,630,180)
At 31st December 2016	492,346,500	466,053,500	377,993,841	541,182,059	584,567,832	20,297,620	2,482,441,352

25.2 Depreciation

At 1st January 2016	-	18,058,296	233,240,066	279,368,940	289,198,630	8,272,620	828,138,552
Depreciation Charge for the Year	-	14,441,197	45,793,188	56,245,948	72,771,622	3,318,334	192,570,289
Disposals	-	-	(4,582,950)	(7,488,878)	(5,776,850)	(9,810,000)	(27,658,678)
At 31st December 2016	-	32,499,493	274,450,304	328,126,010	356,193,402	1,780,954	993,050,163

25.3 Net Book Value

At 31st December 2015	492,346,500	447,995,204	110,425,228	184,292,222	232,563,691	2,725,000	1,470,347,845
At 31st December 2016	492,346,500	433,554,007	103,543,537	213,056,049	228,374,430	18,516,666	1,489,391,189

25.4 There were no capital work in progress outstanding as at the Statement of Financial Position Date. (2015- Nil)

25.5 Freehold Land and Building

The details of the Land and Building owned by the Bank are as follows;

Location/Address	Extent		2016 Revalued Amount		2015 Revalued Amount	
	Land (Perches)	Building (Square Feet)	Land Rs.	Building Rs.	Land Rs.	Building Rs.
No. 450, Galle Road, Colombo 03	23.66	43,317	213,000,000	455,400,000	213,000,000	455,400,000
No. 08, Sea Avenue, Colombo 03	18.55	-	111,300,000	-	111,300,000	-
No. 10, Sea Avenue, Colombo 03	19.80	-	118,800,000	-	118,800,000	-
No. 12 & 12 1/ 1, Sea Avenue, Colombo 03	10.00	3,874	49,246,500	10,653,500	49,246,500	10,653,500
			492,346,500	466,053,500	492,346,500	466,053,500

Notes to the Financial Statements

- 25.6** All Freehold Land and Building owned by the Bank have been revalued by M/s Sunil Fernando Associates (Pvt.) Ltd, an independent incorporated valuer and having recent experience in the location and the category of Land and Building during 2014. Details of Revalued properties are disclosed in Note 25.8. Revaluation surplus arising out of the revaluation has been transferred to Revaluation Reserve.

Significant Unobservable Valuation Input

Land : Price per Perch Rs. 6,000,000- Rs. 9,000,000

Building : Monthly Rent per Square feet - Rs. 100 - Rs. 200

Significant increase/decrease in estimated price per perch/square feet would result in a significantly higher/lower fair value.

Other fair value related disclosures on Revalued Land and Building are provided in Note 39.2.

- 25.7** The Carrying amount of revalued Land and Building, if they were carried at cost less depreciation, would be as follows;

	2016			2015		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Freehold Land	413,652,558	-	413,652,558	413,652,558	-	413,652,558
Freehold Building	223,252,527	52,527,699	170,724,828	223,252,527	44,296,224	178,956,303
Total	636,905,085	52,527,699	584,377,386	636,905,085	44,296,224	592,608,861

- 25.8** Details of the Land and Building stated at revalued amounts are given below;

Location/Address	Valuer Name	Date of Valuation	Method of Valuation	Land		Building	
				Cost	Revalued Amount	Cost	Revalued Amount
				Rs.	Rs.	Rs.	Rs.
No 450, Galle Road, Colombo 03	Sunil Fernando Associates (Pvt.) Ltd	22nd September 2014	Investment Method	183,969,895	213,000,000	212,332,737	455,400,000
No: 08, Sea Avenue, Colombo 03	Sunil Fernando Associates (Pvt.) Ltd	22nd September 2014	Comparison Method of Valuation	106,166,453	111,300,000	-	-
No: 10, Sea Avenue, Colombo 03				82,437,000	118,800,000	-	-
No: 12 & 12 1/ 1, Sea Avenue, Colombo 03				41,079,210	49,246,500	10,919,790	10,653,500

- 25.9** A classwise analysis of the cost/fair value of fully depreciated Property, Plant and Equipment of the Bank which are still in use at the date of the Statement of Financial Position are as follows;

	2016 Rs.	2015 Rs.
Office Equipments	108,013,802	77,482,006
Computer Hardware and Equipments	107,640,156	105,354,120
Furniture & Fittings	101,825,268	36,746,392
Motor Vehicles	97,620	97,620
	317,576,846	219,680,138

25.10 There were no Property, Plant and Equipment identified as temporarily idle as at the date of the Statement of Financial Position (2015- Nil).

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

	2016 Rs.	2015 Rs.
Computer Hardware and Equipments	58,785,288	34,822,430

25.12 There were no restrictions on the title of Property, Plant and Equipments as at the Statement of Financial Position date (2015- Nil).

25.13 There were no items of Property, Plant and Equipments pledged as securities against liabilities as at the Statement of Financial Position date (2015- Nil).

25.14 There were no impairment losses recognised with regard to Property, Plant and Equipments as at the Statement of Financial Position date (2015- Nil).

26 INTANGIBLE ASSETS

Computer Software

	Total Rs.
Cost	
At 1st January 2016	483,324,687
Additions	19,289,296
Disposals	-
At 31st December 2016	502,613,983
Amortisation	
At 1st January 2016	154,197,488
Amortisation Charge for the Year	32,712,249
Disposals	-
At 31st December 2016	186,909,737
Net Book Value	
At 1st January 2016	329,127,199
At 31st December 2016	315,704,246

Intangible Assets include the Cost of Core Banking License and Other Softwares. There were no Intangible Asset items pledged as a security against liabilities as at the date of the Statement of Financial Position. There were no borrowing costs related to Intangible Assets acquired during the year (2015- Nil). There were no impairment losses recognised with regard to Intangible Assets as at the Statement of Financial Position date (2015- Nil).

27 OTHER ASSETS

	2016 Rs.	2015 Rs.
Deposits and Prepayments	264,138,305	244,775,007
Prepaid Staff Cost	276,526,922	202,399,234
Other Receivables	104,706,501	156,271,687
	645,371,728	603,445,928

Notes to the Financial Statements

28 DUE TO BANKS

	2016	2015
	Rs.	Rs.
Call Money Borrowings	2,106,699,875	2,830,713,683
Re-finance Borrowings	29,802,923	51,656,817
Securities Sold under Repurchase Agreements - Banks	6,903,208,822	2,602,638,630
Standing Lending Facility Borrowings	3,686,716,301	-
Call and Term Deposits - Banks	1,382,975,262	1,858,680,790
Balances with Foreign Banks	128,988,466	171,919,667
	14,238,391,649	7,515,609,587

29 DUE TO OTHER CUSTOMERS

	2016	2015
	Rs.	Rs.
Total Amount Due to Other Customers	91,456,409,639	77,697,054,969
	91,456,409,639	77,697,054,969

29.1 Product wise Analysis

	2016	2015
	Rs.	Rs.
Demand Deposits	5,141,991,127	6,881,531,761
Savings Deposits	13,452,803,301	14,880,794,318
Time Deposits	67,047,836,768	50,480,497,583
Certificate of Deposits	5,488,401,335	4,887,366,664
Margin Deposits	325,377,108	566,864,643
	91,456,409,639	77,697,054,969

29.2 Currency wise Analysis

	2016	2015
	Rs.	Rs.
Sri Lanka Rupee	84,851,489,196	72,192,571,462
United State Dollar	5,191,710,302	4,528,540,814
Great Britain Pound	344,855,073	428,675,796
Australian Dollar	492,317,416	294,677,475
Euro	183,097,510	157,358,972
Others	392,940,142	95,230,450
	91,456,409,639	77,697,054,969

30 TERM DEBT AND OTHER BORROWED FUNDS

	2016	2015
	Rs.	Rs.
Unsecured Loan Facility Borrowings	5,528,588,987	2,884,588,118
Securities Sold Under Repurchase Agreements - Other Customers	1,234,358,733	4,212,363,333
	6,762,947,720	7,096,951,451

30.1 Unsecured Loan Facility Borrowings - Capital

	Senior		Total
	Fixed	Floating	
	Rs.	Rs.	Rs.
At 1st January 2016	-	2,884,588,118	2,884,588,118
Received during the Year	1,191,000,000	1,388,332,500	2,579,332,500
Exchange Rate Difference	-	117,211,882	117,211,882
At 31 December 2016	1,191,000,000	4,390,132,500	5,581,132,500

30.1.1 Unsecured Loan Facility Borrowings - Capital

Lender	Receipt Date	Maturity Date	Rate of Interest	Amount	
				Original Currency	Rs.
Global Climate Partnership Fund S.A. SICAV-SIF	1st October 2013	30th September 2020	6 Month LIBOR + 4%	USD 10,000,000	1,500,900,000
Global Climate Partnership Fund S.A. SICAV-SIF	3rd September 2015	2nd September 2022	6 Month LIBOR + 4%	USD 10,000,000	1,500,900,000
Micro, Small & Medium Enterprises Bonds S.A.	19th December 2016	18th December 2021	3 Month LIBOR + 4%	USD 9,250,000	1,388,332,500
Micro, Small & Medium Enterprises Bonds S.A.	21st December 2016	19th July 2021	11.50%	LKR 1,191,000,000	1,191,000,000
					5,581,132,500

31 OTHER PROVISIONS AND ACCRUALS

	2016	2015
	Rs.	Rs.
Utility Payables	71,296,518	59,376,890
Other Accruals	99,102,748	131,311,224
	170,399,266	190,688,114

32 OTHER LIABILITIES

	2016	2015
	Rs.	Rs.
Cheque Pending Realisation	9,273,927	-
Claims Payable	497,688,007	573,719,138
Defined Benefit Plan - Retiring Gratuity Obligation (Note 33.2)	201,060,482	158,545,574
Other Creditors	435,790,407	353,733,677
	1,143,812,823	1,085,998,389

Notes to the Financial Statements

33 DEFINED BENEFIT PLAN - RETIRING GRATUITY OBLIGATION

Amounts recognised in Statement of Comprehensive Income in respect of Defined Benefit Plan Costs are as follows;

33.1 Defined Benefit Plan Expense

	2016 Rs.	2015 Rs.
Service Cost		
Current Service Cost	29,395,155	23,890,945
Net Interest Expense	17,440,013	12,152,830
Components recognised in the Profit or Loss (Note 10)	46,835,168	36,043,775
Re-measurement of Net Defined Benefit Obligations		
Actuarial Losses	7,377,697	2,602,554
Components recognised in Other Comprehensive Income	7,377,697	2,602,554

33.2 Defined Benefit Plan - Retiring Gratuity Obligations

Movement in the present value of the Defined Benefit Plan Obligation is as follows:

	2016 Rs.	2015 Rs.
Balance at the Beginning of the Year	158,545,574	127,924,523
Current Service Cost	29,395,155	23,890,945
Interest Cost	17,440,013	12,152,830
Actuarial Losses Due to Changes in Assumptions	7,377,697	2,602,554
Benefits Paid during the Year	(11,697,957)	(8,025,278)
Balance at the End of the Year (Note 32)	201,060,482	158,545,574

Actuarial Valuation of Retiring Gratuity Obligation as at 31st December 2016 was carried out by Mr. M. Poopalanathan of Messrs. Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries using "Projected Unit Credit Method" as recommended by LKAS 19 "Employee Benefits".

The principal assumptions used in determining the Retiring Benefit Obligation are given below;

	2016 Rs.	2015 Rs.
Discount Rate	12.00% p.a	11.00% p.a
Salary Increment Rate	9.00% p.a	9.00% p.a

The demographic assumptions underlying the valuation are retirement age (55 years), staff turnover rate, early withdrawal from service, retirement on medical grounds, death before and after retirement, etc. Assumptions regarding future mortality are based on 1967-70 Mortality Table and issued by the Institute of Actuaries, London.

Defined Benefit Plan Obligation is not externally funded hence, no contributions are expected for year 2016. The Defined Benefit Plan Obligation is recorded under 'Other Liabilities' in the Statement of Financial Position. Actuarial Losses of Defined Benefit Plan is recognised in Other Comprehensive Income for the year.

33.3 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible changes in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement as at 31 December 2016. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment rate on the profit or loss and Retiring Gratuity obligation for the year.

Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2016		2015	
		Sensitivity Effect on Statement of Comprehensive Income Rs.	Sensitivity Effect on Defined Benefit Obligation Rs.	Sensitivity Effect on Statement of Comprehensive Income Rs.	Sensitivity Effect on Defined Benefit Obligation Rs.
1%	-	8,443,786	(8,443,786)	7,033,665	(7,033,665)
(1%)	-	(9,224,587)	9,224,587	(7,719,535)	7,719,535
-	1%	(10,371,462)	10,371,462	(8,553,254)	8,553,254
-	(1%)	9,633,487	(9,633,487)	7,914,181	(7,914,181)

33.4 Maturity Profile of Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at date of Statement of Financial Position is given below;

	2016	2015
Weighted Average Duration of Defined Benefit Obligation (Years)	4.90	4.87
Average Time to Benefit Payout (Years)	4.43	4.41

33.5 Distribution of Defined Benefit Obligation Over Future Lifetime

The following table demonstrates distribution of the future working lifetime of the Defined Benefit Obligation as at the Statement of Financial Position Date.

	2016 Rs.	2015 Rs.
Less than 1 year	3,637,170	5,331,025
Between 1 - 2 years	907,320	2,093,780
Between 2 - 5 years	102,240,429	74,630,772
Over 5 years	94,275,563	76,489,997
	201,060,482	158,545,574

34 DEBENTURES

34.1 Amortised Cost

	2016 Rs.	2015 Rs.
Unsecured, Subordinated, Redeemable Debentures	3,850,758,620	3,828,761,423
Unsecured, Senior, Redeemable Debentures	4,099,412,254	4,085,824,264
	7,950,170,874	7,914,585,687

Notes to the Financial Statements

34.2 Capital

	Subordinated		Senior		Total Rs.
	Fixed	Floating	Fixed	Floating	
	Rs.	Rs.	Rs.	Rs.	
At 1st January 2016	3,140,000,000	610,000,000	2,805,196,400	1,194,803,600	7,750,000,000
Issued during the Year	-	-	-	-	-
At 31st December 2016	3,140,000,000	610,000,000	2,805,196,400	1,194,803,600	7,750,000,000

34.3 Unsecured Subordinated Redeemable Debentures

2012/2017 Issue

Debentures outstanding as at 31st December 2016, includes of 750,000 Rated, Unsecured, Subordinated, Redeemable Debentures of Rs. 1,000/- each issued by the Bank in 2012 the, details of which is given below:

Debentures Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	2016 Rs.
Fixed Rate Debentures					
2012/2017 - 11.25% p.a.	Listed	Semi Annually	19.03.2012	18.03.2017	35,000,000
2012/2017 - 11.50% p.a.	Listed	Annually	19.03.2012	18.03.2017	55,300,000
2012/2017 - 14.50% p.a.	Listed	Maturity	19.03.2012	18.03.2017	49,700,000
					140,000,000
Floating Rate Debentures					
2012/2017 - 6 Month Treasury Bill Rate (Gross) + 2.95% p.a.	Listed	Semi Annually	19.03.2012	18.03.2017	610,000,000
					610,000,000
					750,000,000

2014/2019 Issue

Debentures outstanding as at 31st December 2016, includes of 30,000,000 Rated, Unsecured, Subordinated, Redeemable Debentures of Rs. 100/- each issued by the Bank in 2014 the details of which is given below:

Debentures Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	2016 Rs.
Fixed Rate Debentures					
2014/2019 - 9.75% p.a.	Listed	Annually	30.10.2014	29.10.2019	1,912,000,000
2014/2019 - 9.5233% p.a.	Listed	Semi Annually	30.10.2014	29.10.2019	1,088,000,000
					3,000,000,000

34.4 Unsecured Senior Redeemable Debentures

2015/2018 and 2015/2019 Issue

Debentures outstanding as at 31st December 2016, includes of 40,000,000 Rated, Unsecured, Senior, Redeemable Debentures of Rs. 100/- each issued by the Bank in 2015 the details of which is given below:

Debentures Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	2016 Rs.
Fixed Rate Debentures					
2015/2018 - 9.50% p.a	Listed	Semi Annually	29.09.2015	28.09.2018	949,522,300
2015/2019 - 10.00% p.a	Listed	Semi Annually	29.09.2015	28.09.2019	1,855,674,100
					2,805,196,400
Floating Rate Debentures					
2015/2018 -Average of 6 Months Treasury Bill Rate (Net) + 2.5% p.a.	Listed	Semi Annually	29.09.2015	28.09.2018	359,622,400
2015/2019 -Average of 6 Months Treasury Bill Rate (Net) + 3.0% p.a.	Listed	Semi Annually	29.09.2015	28.09.2019	835,181,200
					1,194,803,600
					4,000,000,000

The Bank has not had any defaults of principal, interest or other breaches with regard to any liability during the year.

35 STATED CAPITAL

Voting Ordinary Shares	No. of Shares	Amount Rs.
At 1st January 2016	295,041,086	1,548,965,702
Shares Issued for Cash/Sub-Division of Shares	-	-
At 31st December 2016	295,041,086	1,548,965,702

36 REVALUATION RESERVE

	Amount Rs.
At 1st January 2015	276,916,333
Realisation of Revaluation Reserve	(6,209,723)
At 1st January 2016	270,706,610
Realisation of Revaluation Reserve	(6,209,722)
At 31st December 2016	264,496,888

Notes to the Financial Statements

37 STATUTORY RESERVE FUND

	Amount Rs.
At 1st January 2015	189,970,219
Transferred During the Year 2015	52,025,896
At 1st January 2016	241,996,115
Transferred During the Year 2016	62,585,241
At 31st December 2016	304,581,356

37.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required by Section 20 (1) of the Banking Act No. 30 of 1988. A sum equivalent to 5% of the Profit after tax should be transferred to the Reserve until the reserve is equal to 50% of the paid up capital of the Bank and thereafter a sum equivalent to 2% of such profits until the amount of reserve is equal to the paid up capital of the Bank. This Reserve Fund will be used only for the purpose specified in Section 20 (2) of the Banking Act No. 30 of 1988.

38 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

Financial assets and financial liabilities are measured on an ongoing basis at either fair value or amortised cost. The summary of significant accounting policies in Note 2 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyse the carrying amount of financial assets and liabilities by category as defined in LKAS 39 - Financial Instruments : Recognition and measurement and by Statement of Financial Position heading:

As at 31st December 2016	Financial Assets Held for Trading at Fair Value Rs.	Available for Sale Financial Assets at Fair Value Rs.	Financial Assets and Liabilities at Amortised Cost Rs.	Derivative Financial Instruments at Fair Value Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	1,703,449,614	-	1,703,449,614
Balances with Central Bank of Sri Lanka	-	-	6,218,564,125	-	6,218,564,125
Placements with Banks	-	-	75,096,992	-	75,096,992
Derivative Financial Instruments	-	-	-	26,279,628	26,279,628
Financial Assets - Held for Trading	629,744,707	-	-	-	629,744,707
Loans and Receivables to Banks	-	-	754,131,408	-	754,131,408
Loans and Receivables to Other Customers	-	-	95,833,759,322	-	95,833,759,322
Financial Investments - Available for Sale	-	6,157,847	-	-	6,157,847
Financial Investments - Held to Maturity	-	-	21,753,428,446	-	21,753,428,446
Total Financial Assets	629,744,707	6,157,847	126,338,429,907	26,279,628	127,000,612,089
Financial Liabilities					
Due to Banks	-	-	14,238,391,649	-	14,238,391,649
Derivative Financial Instruments	-	-	-	-	-
Due to Other Customers	-	-	91,456,409,639	-	91,456,409,639
Term Debt and Other Borrowed Funds	-	-	6,762,947,720	-	6,762,947,720
Debentures	-	-	7,950,170,874	-	7,950,170,874
Total Financial Liabilities	-	-	120,407,919,882	-	120,407,919,882

As at 31st December 2015	Financial Assets Held for Trading at Fair Value	Available for Sale Financial Assets at Fair Value	Financial Assets and Liabilities at Amortised Cost	Derivative Financial Instruments at Fair Value	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	1,393,268,199	-	1,393,268,199
Balances with Central Bank of Sri Lanka	-	-	4,166,740,570	-	4,166,740,570
Derivative Financial Instruments	-	-	-	1,543,767	1,543,767
Financial Assets - Held for Trading	14,706,753	-	-	-	14,706,753
Loans and Receivables to Banks	-	-	944,835,683	-	944,835,683
Loans and Receivables to Other Customers	-	-	84,185,516,138	-	84,185,516,138
Financial Investments - Available for Sale	-	6,157,847	-	-	6,157,847
Financial Investments - Held to Maturity	-	-	14,667,281,738	-	14,667,281,738
Total Financial Assets	14,706,753	6,157,847	105,357,642,328	1,543,767	105,380,050,695
Financial Liabilities					
Due to Banks	-	-	7,515,609,587	-	7,515,609,587
Derivative Financial Instruments	-	-	-	2,135,543	2,135,543
Due to Other Customers	-	-	77,697,054,969	-	77,697,054,969
Term Debt and Other Borrowed Funds	-	-	7,096,951,451	-	7,096,951,451
Debentures	-	-	7,914,585,687	-	7,914,585,687
Total Financial Liabilities	-	-	100,224,201,694	2,135,543	100,226,337,237

39 FAIR VALUE OF FINANCIAL INSTRUMENTS

39.1 Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

(a) Derivatives

Derivative products valued with market-observable inputs are mainly currency swaps and forward foreign exchange contracts. Such valuations incorporate various inputs such as foreign exchange spot and forward rates.

(b) Financial Investments - Available for Sale

Available for Sale Financial Assets valued using valuation techniques or pricing models primarily consist of unquoted equities.

(c) Financial Assets Held for Trading

Quoted Equities and Sri Lanka Government Securities - Treasury Bills and Bonds included in Financial Assets Held for Trading are valued using market prices.

39.2 Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation 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

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 2016	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	26,279,628	-	26,279,628
Financial Assets - Held for Trading				
- Equities	12,723,051	-	-	12,723,051
- Sri Lanka Government Securities - Treasury Bills and Bonds	617,021,656	-	-	617,021,656
Financial investments - Available for Sale	-	6,157,847	-	6,157,847
	629,744,707	32,437,475	-	662,182,182
Non Financial Assets				
Land - Revalued	-	-	492,346,500	492,346,500
Building - Revalued	-	-	433,554,007	433,554,007
	-	-	925,900,507	925,900,507
As at 31st December 2015	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	1,543,767	-	1,543,767
Financial Assets - Held for Trading				
- Equities	14,706,753	-	-	14,706,753
Financial investments - Available for Sale	-	6,157,847	-	6,157,847
	14,706,753	7,701,614	-	22,408,367
Non Financial Assets				
Land - Revalued	-	-	492,346,500	492,346,500
Building - Revalued	-	-	447,995,204	447,995,204
	-	-	940,341,704	940,341,704
Financial Liabilities				
Derivative Financial Instruments	-	2,135,543	-	2,135,543
	-	2,135,543	-	2,135,543

- b) The following table shows the total gains and losses (excluding interest) recognised in profit or loss during the year relating to assets and liabilities held at the year end.

	Net Trading Income	
	2016	2015
	Rs.	Rs.
Financial Assets		
Derivative Financial Instruments	26,279,628	(591,776)
Financial Assets - Held for Trading		
- Equities	(1,983,702)	(1,641,684)
- Sri Lanka Government Securities - Treasury Bills and Bonds	(2,110,380)	(366,600)
	22,185,546	(2,600,060)

- c) Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	2016		2015	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Financial Assets				
Cash and Cash Equivalents	1,703,449,614	1,703,449,614	1,393,268,199	1,393,268,199
Balances with Central Bank of Sri Lanka	6,218,564,125	6,218,564,125	4,166,740,570	4,166,740,570
Placements with Banks	75,096,992	75,096,992	-	-
Loans and Receivables to Banks	754,131,408	715,834,208	944,835,683	932,762,883
Loans and Receivables to Other Customers	95,833,759,322	95,715,049,775	84,185,516,138	84,128,875,579
Financial Investments - Held to Maturity	21,753,428,446	21,343,272,064	14,667,281,738	14,500,944,821
Total Financial Assets	126,338,429,907	125,771,266,788	105,357,642,328	105,122,592,052
Financial Liabilities				
Due to Banks	14,238,391,649	14,238,391,649	7,515,609,587	7,515,609,587
Due to Other Customers	91,456,409,639	91,003,944,343	77,697,054,969	77,213,866,045
Term Debt and Other Borrowed Funds	6,762,947,720	6,762,947,720	7,096,951,451	7,096,951,451
Debentures	7,950,170,874	7,950,224,660	7,914,585,687	7,907,035,640
Total Financial Liabilities	120,407,919,882	119,955,508,372	100,224,201,694	99,733,462,723

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity it is assumed that the carrying amounts approximate their fair value. This assumption is applied for Cash and Cash Equivalents, Balances with Central Bank of Sri Lanka, Placements with Banks, Securities Purchased under Re-sale Agreements. This assumption is also applied to demand deposits, savings accounts without a specific maturity, floating rate instruments, fixed rate instruments having maturities within 12 months and unquoted shares.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities (other than assets and liabilities with maturities within 12 months) carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

Notes to the Financial Statements

39.3 Re-Classification of Financial Assets

The following tables shows the carrying amounts and fair values of financial assets reclassified from 'Held for Trading' to the 'Loans and Receivables' category. All transfers were made on 1st October 2014 at the fair value as at that date. There have been no further reclassifications since then.

Type of Assets Re - classified	2016		2015	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Debentures - Quoted	579,052,279	555,377,777	1,048,366,847	1,028,375,689

The following table shows the total fair value gains or losses and net interest income that would have been recognised during the year, if the Bank had not reclassified financial assets from the 'Held for Trading' to the 'Loans and Receivables' category. This disclosure is provided for information purposes only. It does not reflect what has actually been recorded in the Financial Statements of the Bank.

	2016 Rs.	2015 Rs.
Fair value gains and (losses) which would otherwise have been recorded after reclassification, during the current year	(1,665,116)	(52,450,409)
Interest Income which would otherwise have been recorded after reclassification, during the current year	28,217,896	41,277,807
Total Profit or (Loss) which would otherwise have been recorded during the year since reclassification	26,552,780	(11,172,602)
Total Profit or (Loss) which would otherwise have been recorded since reclassification	15,380,177	(19,076,408)

40 RISK MANAGEMENT

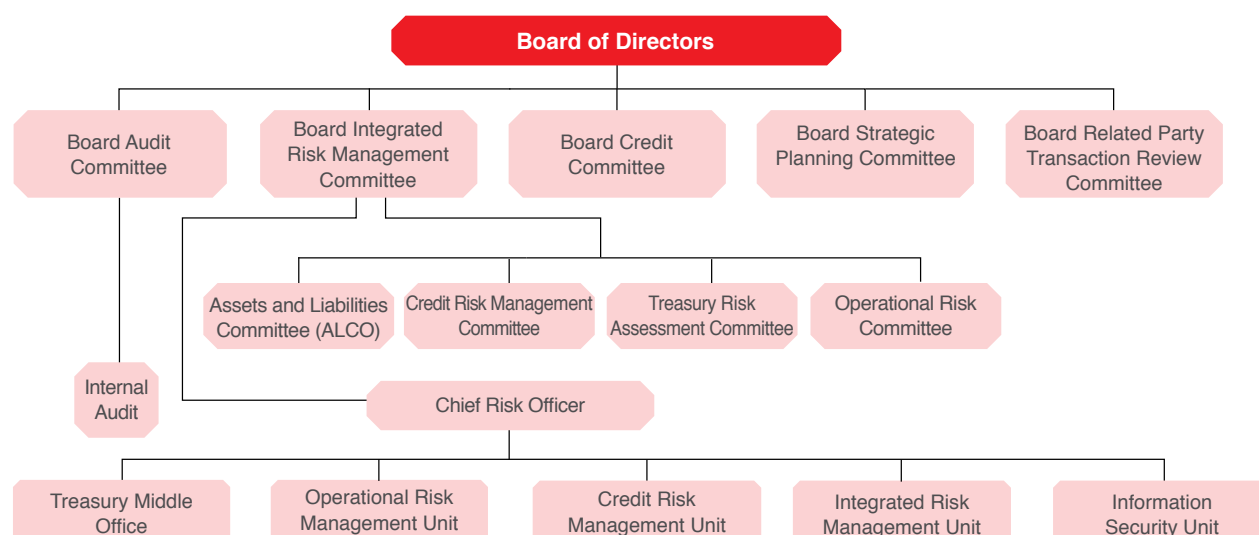
40.1 Introduction

Risk is inherent in Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls as per the risk appetite of the Bank. The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank's exposure to risk could be broadly categorised into credit risk, market risk, liquidity risk and operational risk. In addition, the impact of other risks such as strategic risk, reputational risk, compliance risk and legal risk are also monitored to avoid any additional impact on the Bank. The impact of risk could be externally and internally segregated according to the nature of the business. External risk which may be due to changes in political, regulatory, and other changes in industry could impact the strategic processes of the Bank.

such instruments is done by way of assessing the future settlement plan. Early identification of any issues had been the key factor to arrest and addresses the challenges of the environment and the expectation of the Bank. Having identified the categories of the measurements, the mitigating controls were introduced for better portfolio management. Separate management methods were introduced as per collateral, risk rating, and cash flow attached to each instruments. Stringent measures were introduced for products which needed close monitoring.

Risk Management Structure

The Bank's overall responsibility for Risk Management falls on the Board of Directors. Accordingly, the Bank has established a robust and pervasive risk culture and clear policies that define the responsibilities of Corporate and Senior Management personnel, subject to the oversight of the Board. There are Committees at both Board and Management levels to ensure that all risks are appropriately managed and risk limits are established based on the appetite of the Bank.



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

Board Audit Committee

The Board Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls and risk management systems, internal audit process, and the Bank's process for monitoring compliance with legal and regulatory compliance, appointment of external auditors, their fees and their objectivity and independence and maintaining high standards of good Corporate Governance practices to conform to highest ethical standards. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both adhoc and regular reviews of risk management controls and procedures in accordance with Audit Plan, the results of which are reported to the Audit Committee.

Notes to the Financial Statements

Board Credit Committee

The Board of Directors has delegated the responsibility for the oversight of credit risk to Board Credit Committee. The Board Credit Committee discharges its main responsibilities to operate a sound credit granting process, maintain an appropriate credit administration, maintain adequate controls over credit risk, identification and administration of problem advances, proper evaluation of new business opportunities, cyclical aspects of internal and external economy and review of facilities sanctioned by the Committee and issue of further instructions, if necessary.

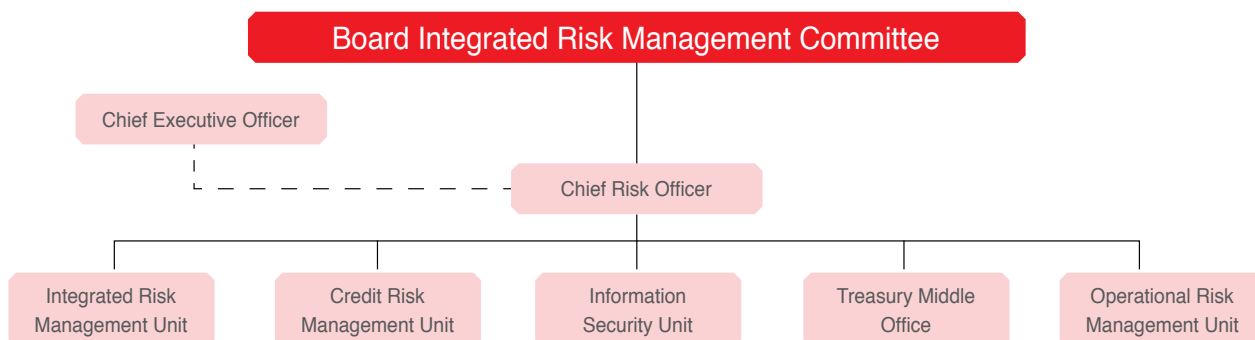
Board Integrated Risk Management Committee

Board Integrated Risk Management Committee mainly looks into the overall Risk Management aspects of the Bank. The Committee adopts Risk strategies, frameworks, and policies and is also responsible for implementation

to accomplish the goals and objectives of the strategic plan and this too is recommend 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.

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.



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.

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 its main responsibilities by approving the periodic strategic plan and significant amendments to the existing strategic plan and recommending the same to the Board, ensuring that the annual budget is prepared

Each unit monitors the impact on separate risks as specified. These units function independent of each respective business unit and submits its observations to the Chief Risk Officer. Reports are generated daily, weekly, monthly and quarterly basis as per the requirements and breaches, if any, are notified for relevant action. Exceptions are also reported to the Board Integrated Risk Management Committee with action taken.

The Compliance function is also an independent function which performs the role of safeguarding the Bank against regulatory and reputational risks. It does this through appropriate policies and procedures for compliance with all applicable laws and regulations and embedding them into the internal control system. The policies set out the procedures for safeguarding the Bank from being sanctioned or fined for regulatory non-compliance. Compliance Department also conducts training to familiarise staff with their compliance obligations.

Bank's Risks are recorded according to the breaches that have taken place, expected /predicted losses and unexpected cases which may arise in future. The estimated figures of cases are weekly monitored for prevention and mitigations. These events mainly are taken into account according to the internal risk management

process established by the Bank. Monitoring of Risks is done on predetermined limits as per policies. Management Information System reports are generated to the Corporate Management based on these risks indicators. Certain industries are specially highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted based on their daily, weekly and monthly monitoring to the Board/Management committees to measure the risk exposure across all types of risks and activities. This contains the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports will indicate aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios. Further elaborations will be done on industry, concentration, customer and geographic risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored weekly for adherence. Delegated authority limits have been imposed to each business units to control exposure to risks. Those outwith such limits are referred to Credit Risk Management Committee/Board Credit Committee for approval.

40.2 Credit Risk

Credit Risk is the loss that the Bank will incur due to failure of a customers or a counterparty to meet their contractual obligations towards the Bank. The Bank manages and controls the risk by establishing limits via proper evaluation for borrowers, counterparties, industries and portfolio. The Bank's risk appetite is based on economic conditions and regulatory requirements.

Management of Credit Risk

The primary objective of credit risk management is to enable the Bank to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved credit appetite. The Bank has a well defined credit policy approved by the Board of Directors which spells out the credit culture of the Bank, specifying target markets for lending and areas to avoid. The policy is implemented through the credit process, which is set out with clear guidelines and procedures. As a further step towards improving and maintaining uniformity of credit submissions, the Bank has established credit clusters with well trained and experienced staff to evaluate and carry out periodic review of credit facilities.

The Bank's credit risk management process broadly encompasses the following;

- a) Loan origination and risk appraisal comprises initial screening and credit appraisal focused on borrowers' ability to meet their commitments in a timely manner. The internal risk rating is an important part of the risk assessment of the customers and incorporated in the

credit decision process. This numerical rating denotes the borrower's strength relating to repayment ability, financial condition, industry/business outlook and management quality. A separate alphabetical rating is assigned to customers as the security indicator based on Bank's approved policy on security. The Bank minimises risk by granting credit facilities for high rated customers.

- b) Loan approval and sanction of credit facilities - Clear guidelines and policies have been established for loan approvals/renewals within delegated credit approval authorities
- c) Credit administration and disbursement is performed by Credit Administration Unit, which is an independent unit to ensure clear segregation of duties from business units and ensures origination and disbursement of credits are made only after stipulated conditions have been met and relevant security documents are obtained.
- d) Credit Measurement and Monitoring - Credit Risk Management Unit measures and tracks the early warning signals pertaining to deterioration of financial health of the borrowers and customers who need special attention/ monitoring is identified and their financial behaviour is discussed at Credit Risk Management Committee and Board Credit Committee levels.
- e) Non Performing Advances are managed by the Legal and Recoveries departments. These units are responsible for all aspects of the non performing credit, restructuring of the credit, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all legal recovery matters are finalised, effective integration with Credit Risk and Credit Administration Unit for follow-up action.

The Bank's credit risk management process is articulated in credit policies, which are approved by the Board of Directors. Credit policies lay down the conditions and guidelines for the granting, maintenance, monitoring and management of credit, at both individual transaction and portfolio levels. These policies are documented, well defined, consistent with prudent practices and regulatory requirements and adequate for the nature and complexity of Banks activities. Limits have been prescribed for Bank's exposure to any single borrower, group of specific borrowers or specific industries/sectors in order to avoid concentration of credit risk.

A well structured loan review mechanism is in place and a comprehensive review is carried out at least annually for individually significant loans and identification of customers that require special attention are identified and more frequent updates are carried out for "Watch list" exposures.

The Bank uses collateral for credit risk mitigation. The requirements for collateral is set forth in the credit policies

and procedures of the Bank. Collateral is evaluated independently by a valuation panel and significant exposures are vetted through special panel valuation committee for opinion.

Impairment Assessment

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter Bankruptcy or other financial reorganisation
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel II.

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant Loan or Receivable on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should Bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively Assessed Allowances

Allowances are assessed collectively for losses on Loans and Receivables that are not individually significant and for individually significant Loans and Receivables that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience. However, when there are significant market developments, the Bank would include macro-economic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment unemployment rates, current levels

of bad debts, changes in laws, changes in regulations, Bankruptcy trends, and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio or economic data. The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. The management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Credit - related Commitment Risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Analysis of Maximum Exposure to Credit risk and Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The Bank obtains cash, gold, securities, property, guarantees, other movable and immovable property as collateral against lending. An approved list of acceptable securities and the applicable percentage of cash security category are defined as per the Credit Policy. These Collateral are evaluated independently by a valuation panel and all significant collateral are vetted through a special panel valuation committee for opinion. The Management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose off repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Maximum Exposure to Credit risk

	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
31st December 2016		
Balances with Central Bank of Sri Lanka	6,218,564,125	6,218,564,125
Placements with Banks	75,096,992	75,096,992
Derivative Financial Instruments	26,279,628	26,279,628
Financial Assets - Held for Trading	629,744,707	629,744,707
Loans and Receivables to Banks	754,131,408	754,131,408
Loans and Receivables to Other Customers - Gross	98,509,785,920	26,386,072,794
Financial Investments - Available for Sale	6,157,847	6,157,847
Financial Investments - Held to Maturity	21,753,428,446	21,753,428,446
	127,973,189,073	55,849,475,947
31st December 2015		
Balances with Central Bank of Sri Lanka	4,166,740,570	4,166,740,570
Derivative Financial Instruments	1,543,767	1,543,767
Financial Assets - Held for Trading	14,706,753	14,706,753
Loans and Receivables to Banks	944,835,683	540,002,806
Loans and Receivables to Other Customers - Gross	86,322,651,611	12,763,008,060
Financial Investments - Available for Sale	6,157,847	6,157,847
Financial Investments - Held to Maturity	14,667,281,738	14,667,281,738
	106,123,917,969	32,159,441,541

Notes to the Financial Statements

Credit Quality by Class of Financial Assets

The Bank manages the credit quality of financial assets using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

31st December 2016	Neither Past Due nor Impaired	Past Due but not Impaired				Individually Impaired	Total		
		91-180		181-360				361-540	
		Days	Rs.	Days	Rs.			Days	Rs.
	Rs.	Upto 90 Days	Rs.	Days	Rs.	Days	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,703,449,614	-	-	-	-	-	-	-	1,703,449,614
Balances with Central Bank of Sri Lanka	6,218,564,125	-	-	-	-	-	-	-	6,218,564,125
Placements with Banks	75,096,992	-	-	-	-	-	-	-	75,096,992
Derivative Financial Instruments	26,279,628	-	-	-	-	-	-	-	26,279,628
Financial Assets - Held for Trading	629,744,707	-	-	-	-	-	-	-	629,744,707
Loans and Receivables to Banks	754,131,408	-	-	-	-	-	-	-	754,131,408
Loans and Receivables to Other Customers	71,185,747,116	21,963,356,289	1,145,702,927	580,790,438	195,818,966	633,286,979	2,805,083,205	98,509,785,920	
Financial Investments - Available for Sale	6,157,847	-	-	-	-	-	-	6,157,847	
Financial Investments - Held to Maturity	21,753,428,446	-	-	-	-	-	-	21,753,428,446	
Total	102,352,599,883	21,963,356,289	1,145,702,927	580,790,438	195,818,966	633,286,979	2,805,083,205	129,676,638,687	

31st December 2015	Neither Past Due nor Impaired	Past Due but not Impaired				Individually Impaired	Total		
		91-180		181-360				361-540	
		Days	Rs.	Days	Rs.			Days	Rs.
	Rs.	Upto 90 Days	Rs.	Days	Rs.	Days	Rs.		
Cash and Cash Equivalents	1,393,268,199	-	-	-	-	-	-	1,393,268,199	
Balances with Central Bank of Sri Lanka	4,166,740,570	-	-	-	-	-	-	4,166,740,570	
Derivative Financial Instruments	1,543,767	-	-	-	-	-	-	1,543,767	
Financial Assets - Held for Trading	14,706,753	-	-	-	-	-	-	14,706,753	
Loans and Receivables to Banks	944,835,683	-	-	-	-	-	-	944,835,683	
Loans and Receivables to Other Customers	71,883,103,161	9,379,456,611	1,315,703,463	670,132,997	255,109,469	688,042,474	2,131,103,436	86,322,651,611	
Financial Investments - Available for Sale	6,157,847	-	-	-	-	-	-	6,157,847	
Financial Investments - Held to Maturity	14,667,281,738	-	-	-	-	-	-	14,667,281,738	
Total	93,077,637,718	9,379,456,611	1,315,703,463	670,132,997	255,109,469	688,042,474	2,131,103,436	107,517,186,168	

SLFRS 7 : Financial Instruments : Disclosures specifically require the disclosure of quality of loans that are neither impaired nor past due and an analysis of the age of financial assets that are past due but not impaired as at the reporting date. The Bank consider any amounts uncollected for one day or more beyond their contractual due date as 'past due'.

Individually Impaired Loans and Receivables/ Financial Assets

All individually significant Loans and Receivables/Financial Assets which the Bank determines that there is objective evidence of impairment loss and therefore, may not be able or unable to collect all principal and interest due according to the contractual terms are classified as 'Impaired Loans and Receivables/Financial Assets'.

Past Due but not Impaired Loans and Receivables/Financial Assets

Past Due But Not Impaired Loans and Receivables/Financial Assets are those with contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed, level of security/collateral available and significance of the financial asset.

Credit Risk Exposure for Each Internal Credit Risk Rating

The Bank's policy is to maintain accurate and consistent risk ratings across the lending portfolio. This facilitates focused management of the applicable risks and comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of quantitative and qualitative factors to provide the main inputs for the measurement of counterparty risks.

Risk Rating Grade	Description	2016 Rs.	2015 Rs.
Risk Rating Grade 1	High Safety	46,201,140,842	45,008,063,482
Risk Rating Grade 2	Moderate Safety	35,446,735,158	25,881,182,110
Risk Rating Grade 3	Needs Monitoring	3,397,536,125	2,503,882,653
Risk Rating Grade 4	Substandard Risk	4,075,259,866	3,740,367,913
Risk Rating Grade 5	Very High Risk	53,504,506	146,832,625
		89,174,176,497	77,280,328,783

Securities Purchased under Resale Agreements, Sri Lanka Development Bonds and Quoted Debentures are not rated under Bank's Internal Risk Ratings.

Credit Quality by Class of Financial Assets

The Bank's concentrations of risks are managed by client/counterparty and by industry sector. The maximum credit exposure to any customer or a group counterparty as of 31st December 2016 was Rs. 2,275,000,000/- (2015: Rs.2,951,140,000/-), before taking account of collateral.

Notes to the Financial Statements

Industry Analysis

31st December 2016	Government	Agriculture and Fishing	Manufacturing	Tourism	Transport
	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,205,764,875	-	-	-	-
Balances with Central Bank of Sri Lanka	6,218,564,125	-	-	-	-
Placements with Banks	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-
Financial Assets - Held for Trading	617,021,656	-	-	-	-
Loans and Receivables to Banks - Gross	-	-	-	-	-
Loans and Receivables to Other Customers- Gross	6,207,879,448	10,697,549,305	9,118,327,848	3,258,950,609	1,694,040,849
Financial Investments - Available for Sale	-	-	-	-	-
Financial Investments - Held to Maturity	21,753,428,446	-	-	-	-
	36,002,658,550	10,697,549,305	9,118,327,848	3,258,950,609	1,694,040,849

31st December 2015	Government	Agriculture and Fishing	Manufacturing	Tourism	Transport
	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,255,357,401	-	-	-	-
Balances with Central Bank of Sri Lanka	4,166,740,570	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-
Financial Assets - Held for Trading	-	-	-	-	-
Loans and Receivables to Banks - Gross	-	-	-	-	-
Loans and Receivables to Other Customers- Gross	6,245,115,770	9,641,731,045	9,124,409,664	3,168,371,593	1,391,518,137
Financial Investments - Available for Sale	-	-	-	-	-
Financial Investments - Held to Maturity	14,667,281,738	-	-	-	-
	26,334,495,479	9,641,731,045	9,124,409,664	3,168,371,593	1,391,518,137

Construction	Traders	New Economy	Financial and Business Services	Infrastructure	Other Services	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	-	-	497,684,739	-	-	1,703,449,614
-	-	-	-	-	-	6,218,564,125
-	-	-	75,096,992	-	-	75,096,992
-	-	-	26,279,628	-	-	26,279,628
-	-	-	12,723,051	-	-	629,744,707
-	-	-	754,131,408	-	-	754,131,408
21,442,090,227	11,808,138,658	667,488,876	14,803,463,811	104,097,529	18,707,758,760	98,509,785,920
-	-	-	6,157,847	-	-	6,157,847
-	-	-	-	-	-	21,753,428,446
21,442,090,227	11,808,138,658	667,488,876	16,175,537,476	104,097,529	18,707,758,760	129,676,638,687

Construction	Traders	New Economy	Financial and Business Services	Infrastructure	Other Services	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	-	-	137,910,798	-	-	1,393,268,199
-	-	-	-	-	-	4,166,740,570
-	-	-	1,543,767	-	-	1,543,767
-	-	-	14,706,753	-	-	14,706,753
-	-	-	944,835,683	-	-	944,835,683
15,363,093,370	8,316,174,758	836,737,953	14,928,440,736	24,498,490	17,282,560,095	86,322,651,611
-	-	-	6,157,847	-	-	6,157,847
-	-	-	-	-	-	14,667,281,738
15,363,093,370	8,316,174,758	836,737,953	16,033,595,584	24,498,490	17,282,560,095	107,517,186,168

Notes to the Financial Statements

40.3 Liquidity Risk

Liquidity Risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Hence, the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis.

Management of Liquidity Risk

The Bank manages liquidity risk in accordance with regulatory guidelines and accepted best practices. The objective of the Bank's liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and that market access remains cost effective. The Bank's liquidity risk management framework is designed to identify measure and manage the liquidity position in a timely manner. The Assets and Liabilities Committee is responsible for managing this risk through continuous monitoring of the set benchmarks and controlling risks by adopting appropriate strategies through advances, deposits and investment products. Contractual maturity of assets and liabilities, sensitivity of assets and liabilities, key liquidity ratios and monthly liquidity gaps are reviewed at ALCO meetings as measures to liquidity. The Bank maintains a portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of expected cash flow.

The Bank's Liquidity Contingency Plan is a detailed action plan document approved by the Board of Directors of the Bank indicating possible warning indicators, monitoring mechanism and the process for escalation. The plan details the specific action steps and identifies key individuals responsible for the specific action tasks. To limit liquidity risk, the Bank has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. Intraday liquidity management is about managing the daily payments and cash flows. The Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment systems.

The contractual maturities of assets and liabilities of the Bank as at the reporting date are detailed in Note 43.

The policy of the Bank is to maintain adequate liquidity at all times, at all locations and for all currencies and hence to be in a position in the normal course of business, to meet obligations, repay depositors and fulfill commitments. As a part of liquidity management, the Bank maintains borrowing relationships to ensure the continued access to diverse market of funding sources. The Bank's sound credit rating together with excellent market reputation has enabled the Bank to secure ample call lines with local and foreign Banks.

In addition, the Bank maintains a Statutory Deposit with the Central Bank of Sri Lanka equal to 7.5% of rupee deposit liabilities of the Domestic Banking Unit. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the Statutory Liquid Asset Ratio to total liabilities, to reflect market conditions. The significant liquidity ratios during the year were as follows:

Liquidity Ratios

	2016	2015
Advances to Deposit Ratios		
Average	97.03%	93.72%
Year-end	98.43%	98.66%

The Bank stresses the importance of maintaining an adequate deposit base as sources of funds to finance lending to customers. They are monitored using the Advances to Deposit Ratio, which compares Gross Loans and Advances as a percentage of deposits with Banks and other customers. Cheques and drafts purchased which are deemed to be liquid, are excluded from the advances to deposit ratio.

Statutory Liquid Asset Ratio	2016	2015
Average		
Domestic Banking Unit	26.58%	23.76%
Foreign Currency Banking Unit	49.72%	37.43%
Year-End		
Domestic Banking Unit (Minimum Requirement - 20%)	28.03%	24.39%
Foreign Currency Banking Unit (Minimum Requirement - 20%)	38.82%	50.63%

The Bank maintains a healthy Statutory Liquid Asset Ratio (SLAR) at Bank level and at Domestic and Foreign Banking Unit levels. The Bank considers Cash balances, Balances with Licensed Commercial Banks, Money at Call in Sri Lanka, Balances with Banks Abroad, Treasury Bills/Bonds and Securities issued or guaranteed by the Government of Sri Lanka, Sri Lanka Development Bonds, Standing Deposit Facility Investments, Gilt Edged Securities, Approved Commercial Papers, Import Bills, Export Bills, Inland Bills and Items in the Process of Collection as "Liquid Assets" for the purpose of Statutory Liquid Asset Ratio Calculation.

Statutory Liquidity Coverage Ratio (LCR)

In addition to Statutory Liquid Asset Ratio (SLAR) requirement, the Bank ensures compliance with Liquidity Coverage Ratio (LCR) requirement in accordance with Direction No.1 of 2015 on 'Liquidity Coverage Ratio (LCR) under Basel III Liquidity Standards for Licensed Commercial Banks, and Licensed Specialised Banks.

The Bank maintained sufficient High Quality Liquid Assets to meet minimum statutory requirement (70%) for both Sri Lankan Rupees as well as all currencies throughout the year.

	2016	2015
Average		
Rupee LCR	126.93%	94.36%
All Currency LCR	174.01%	133.04%
Year End		
Rupee LCR	163.62%	96.81%
All Currency LCR	230.21%	143.86%

However, minimum LCR requirement will be increased up to 100% by 1st January 2019 on staggered basis as given below;

Effective Date	1st January 2017	1st January 2018	1st January 2019
Minimum LCR Requirement	80%	90%	100%

Contractual Maturities of Undiscounted Cash Flows of Assets and Liabilities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's assets and liabilities as at the end of the reporting period. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Notes to the Financial Statements

As at 31st December 2016	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	1,703,449,614	-	-	-	1,703,449,614
Balances with Central Bank of Sri Lanka	6,218,564,125	-	-	-	6,218,564,125
Placements with Banks	75,096,992	-	-	-	75,096,992
Derivative Financial Instruments	26,279,628	-	-	-	26,279,628
Financial Assets - Held for Trading	629,744,707	-	-	-	629,744,707
Loans and Receivables to Banks	20,804,638	66,439,188	666,887,582	-	754,131,408
Loans and Receivables to Other Customers	46,116,197,251	8,340,357,981	34,867,459,327	6,509,744,763	95,833,759,322
Financial Investments - Available for Sale	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	4,787,294,143	9,951,070,129	5,536,089,871	1,478,974,303	21,753,428,446
Total Undiscounted Financial Assets	59,577,431,098	18,357,867,298	41,070,436,780	7,994,876,913	127,000,612,089
Non Financial Assets					
Property, Plant and Equipment	-	-	-	1,489,391,189	1,489,391,189
Intangible Assets	-	-	-	315,704,246	315,704,246
Other Assets	126,439,165	177,164,475	170,690,979	171,077,109	645,371,728
Total Undiscounted Non-Financial Assets	126,439,165	177,164,475	170,690,979	1,976,172,544	2,450,467,163
Total Undiscounted Assets	59,703,870,263	18,535,031,773	41,241,127,759	9,971,049,457	129,451,079,252
Financial Liabilities					
Due to Banks	12,968,756,494	1,257,827,556	11,807,599	-	14,238,391,649
Due to Other Customers	50,840,749,140	36,151,446,727	4,043,058,978	421,154,794	91,456,409,639
Term Debt and Other Borrowed Funds	830,005,307	410,603,224	4,081,232,500	1,441,106,689	6,762,947,720
Debentures	918,500,855	32,094,140	6,999,575,879	-	7,950,170,874
Total Undiscounted Financial Liabilities	65,558,011,796	37,851,971,647	15,135,674,956	1,862,261,483	120,407,919,882
Non Financial Liabilities					
Current Tax Liabilities	-	411,032,731	-	-	411,032,731
Deferred Tax Liabilities	-	-	-	445,769,180	445,769,180
Other Provisions and Accruals	170,399,266	-	-	-	170,399,266
Other Liabilities	506,961,935	439,427,576	103,147,749	94,275,563	1,143,812,823
Total Undiscounted Non-Financial Liabilities	677,361,201	850,460,307	103,147,749	540,044,743	2,171,014,000
Total Undiscounted Liabilities	66,235,372,997	38,702,431,954	15,238,822,705	2,402,306,226	122,578,933,882
Net Undiscounted Financial Assets/(Liabilities)	(5,980,580,698)	(19,494,104,349)	25,934,761,824	6,132,615,430	6,592,692,207
Net Undiscounted Assets/(Liabilities)	(6,531,502,734)	(20,167,400,181)	26,002,305,054	7,568,743,231	6,872,145,370

As at 31st December 2015	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	1,393,268,199	-	-	-	1,393,268,199
Balances with Central Bank of Sri Lanka	4,166,740,570	-	-	-	4,166,740,570
Derivative Financial Instruments	1,543,767	-	-	-	1,543,767
Financial Assets - Held for Trading	14,706,753	-	-	-	14,706,753
Loans and Receivables to Banks	110,691,040	64,145,423	769,999,220	-	944,835,683
Loans and Receivables to Other Customers	38,384,965,186	7,972,701,159	32,670,307,475	5,157,542,318	84,185,516,138
Financial Investments - Available for Sale	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	501,989,658	6,569,173,660	7,544,178,880	51,939,540	14,667,281,738
Total Undiscounted Financial Assets	44,573,905,173	14,606,020,242	40,984,485,575	5,215,639,705	105,380,050,695
Non Financial Assets					
Property, Plant and Equipment	-	-	-	1,470,347,845	1,470,347,845
Intangible Assets	-	-	-	329,127,199	329,127,199
Other Assets	135,873,204	201,353,791	123,718,661	142,500,272	603,445,928
Total Undiscounted Non-Financial Assets	135,873,204	201,353,791	123,718,661	1,941,975,316	2,402,920,972
Total Undiscounted Assets	44,709,778,377	14,807,374,033	41,108,204,236	7,157,615,021	107,782,971,667
Financial Liabilities					
Due to Banks	4,101,290,297	2,635,250,145	779,069,145	-	7,515,609,587
Derivative Financial Instruments	2,135,543	-	-	-	2,135,543
Due to Other Customers	44,408,344,451	24,770,750,103	7,798,770,873	719,189,542	77,697,054,969
Term Debt and Other Borrowed Funds	3,221,451,285	991,300,166	-	2,884,200,000	7,096,951,451
Debentures	23,182,456	139,341,358	7,752,061,873	-	7,914,585,687
Total Undiscounted Financial Liabilities	51,756,404,032	28,536,641,772	16,329,901,891	3,603,389,542	100,226,337,237
Non Financial Liabilities					
Other Tax Liabilities	-	114,935,472	-	-	114,935,472
Deferred Tax Liabilities	-	-	-	391,739,422	391,739,422
Other Provisions and Accruals	190,688,114	-	-	-	190,688,114
Other Liabilities	573,719,137	359,064,703	76,724,552	76,489,997	1,085,998,389
Total Undiscounted Non-Financial Liabilities	764,407,251	474,000,175	76,724,552	468,229,419	1,783,361,397
Total Undiscounted Liabilities	52,520,811,283	29,010,641,947	16,406,626,443	4,071,618,961	102,009,698,634
Net Undiscounted Financial Assets/(Liabilities)	(7,182,498,859)	(13,930,621,530)	24,654,583,684	1,612,250,163	5,153,713,458
Net Undiscounted Assets/(Liabilities)	(7,811,032,906)	(14,203,267,914)	24,701,577,793	3,085,996,060	5,773,273,033

Notes to the Financial Statements

Contractual Maturities of Commitments and Contingencies

The table below shows the contractual expiry by maturity of the bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31st December 2016	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Contingencies					
Guarantees	930,678,148	537,084,546	1,841,923,919	98,610,695	3,408,297,308
Documentary Credit	616,004,185	494,620,495	-	-	1,110,624,680
Forward Foreign Exchange					
Contracts/Currency Swaps	12,961,594,266	608,160,000	-	-	13,569,754,266
Collection Bills	562,555,589	1,649,300,254	333,901,818	-	2,545,757,661
	15,070,832,188	3,289,165,295	2,175,825,737	98,610,695	20,634,433,915
Commitments					
Undrawn Credit Commitments	7,369,496,213	-	-	-	7,369,496,213
	7,369,496,213	-	-	-	7,369,496,213
Total (Note 44)	22,440,328,401	3,289,165,295	2,175,825,737	98,610,695	28,003,930,128

As at 31st December 2015	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Contingencies					
Guarantees	1,205,145,575	1,430,476,433	266,696,044	-	2,902,318,052
Documentary Credit	1,403,348,334	369,044,882	-	-	1,772,393,216
Forward Foreign Exchange					
Contracts/Currency Swaps	12,834,240,004	-	-	-	12,834,240,004
Collection Bills	497,331,643	1,458,076,716	295,188,499	-	2,250,596,858
	15,940,065,556	3,257,598,031	561,884,543	-	19,759,548,130
Commitments					
Undrawn Credit Commitments	6,463,659,703	-	-	-	6,463,659,703
	6,463,659,703	-	-	-	6,463,659,703
Total (Note 44)	22,403,725,259	3,257,598,031	561,884,543	-	26,223,207,833

40.4 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The Bank has placed a special emphasis on the effect of market risk on fixed income securities, investments and forex positions.

Management of Market Risk

The primary objective of market risk management is to ensure that the Bank optimises that the risk reward relationship and does not expose to unacceptable losses outside its risk appetite.

The Board Integrated Risk Management Committee reviews the risk goals set for market risk management on a quarterly basis and provides valuable input and direction. These goals are compared with results achieved and are subject to a comprehensive discussion for decision making for way forward. In particular, the limits imposed by the regulator and control measures adopted for compliance are carefully monitored.

The Assets and Liabilities Committee (ALCO), in keeping with its Terms of Reference (TOR) approved by the Board, decides on short term and long term strategies of the Bank for the overall management of Assets and Liabilities based on specific needs and prevailing market situation. In the process, ALCO reviews interest rate risk, liquidity risk, the Bank's view on interest rates with competitor rates, exchange forecasts etc.

The Board approved comprehensive policy documents on Market and Liquidity Risk management, Investments, and Stress Testing are in place at Bank to mitigate the market risks. In addition, a policy document defining the responsibilities of each treasury units i.e. front, back and middle office is in place. The strategies and policies are being continuously updated according to the evolving business requirements of the Bank as well as regulatory requirements. Treasury Middle Office functions as an independent unit reporting to Chief Risk Officer.

Treasury Middle Office of the Bank monitors the comprehensive framework of Treasury operating limits approved by the Board, including open position limits, dealer limits, counter party limits, gap limits, Foreign Currency Banking Unit limits and domestic operation limits on a daily basis and takes prompt action when necessary. Separate risk goals are set for market risk management on a quarterly basis and Board Integrated Risk Management Committee reviews these risk goals and provides valuable input and direction.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest rate risk results from the differences in the way interest rate changes affect the values of assets, liabilities, and off balance sheet instruments.

The interest rate sensitivity of Banks portfolio depends on the characteristics of the financial instruments that make up the portfolio. The interest rate sensitivity of a financial instrument depends on maturity and repricing characteristics of the financial instruments.

The Bank presently prepares the Sensitivity of Assets and Liabilities according to CBSL guideline for Interest Rate Sensitive Assets and Liabilities in prescribed time bands which is presented to Bank's Assets and Liabilities Committee on a monthly basis. Gaps are identified between assets and liabilities and the same is used to prepare the Interest Rate Risk Report.

	2016	2015
Increase in interest rates (%)	2%	2%
Effect on Profit or Loss and Equity (Rs.)	(120,266,914)	(182,800,480)
Decrease in interest rates (%)	(2%)	(2%)
Effect on Profit or Loss and Equity (Rs.)	146,936,333	207,466,858

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 2016	Interest Bearing				Non Interest Bearing	Total
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and Cash Equivalents	-	-	-	-	1,703,449,614	1,703,449,614
Balances with Central Bank of Sri Lanka	-	-	-	-	6,218,564,125	6,218,564,125
Placements with Banks	75,096,992	-	-	-	-	75,096,992
Derivative Financial Instruments	-	-	-	-	26,279,628	26,279,628
Financial Assets - Held for Trading	617,021,656	-	-	-	12,723,051	629,744,707
Loans and Receivables to Banks	-	349,157,377	404,974,031	-	-	754,131,408
Loans and Receivables to Other Customers	62,029,528,713	25,079,077,844	8,045,020,276	680,132,489	-	95,833,759,322
Financial Investments - Available for Sale	-	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	4,787,294,143	6,198,820,129	9,288,339,871	1,478,974,303	-	21,753,428,446
Total Financial Assets	67,508,941,504	31,627,055,350	17,738,334,178	2,159,106,792	7,967,174,265	127,000,612,089
Financial Liabilities						
Due to Banks	12,839,768,028	1,257,827,556	11,807,600	-	128,988,465	14,238,391,649
Due to Other Customers	45,373,380,904	36,151,446,727	4,043,058,978	421,154,797	5,467,368,233	91,456,409,639
Term Debt and Other Borrowed Funds	2,225,587,607	3,345,360,113	1,192,000,000	-	-	6,762,947,720
Debentures	2,145,398,595	-	5,804,772,279	-	-	7,950,170,874
Total Financial Liabilities	62,584,135,134	40,754,634,396	11,051,638,857	421,154,797	5,596,356,698	120,407,919,882
Total Interest Rate Sensitivity Gap	4,924,806,370	(9,127,579,046)	6,686,695,321	1,737,951,995	2,370,817,567	6,592,692,207

As at 31st December 2015	Interest Bearing				Non Interest Bearing	Total
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and Cash Equivalents	-	-	-	-	1,393,268,199	1,393,268,199
Balances with Central Bank of Sri Lanka	-	-	-	-	4,166,740,570	4,166,740,570
Derivative Financial Instruments	-	-	-	-	1,543,767	1,543,767
Financial Assets - Held for Trading	-	-	-	-	14,706,753	14,706,753
Loans and Receivables to Banks	90,014,795	449,988,011	404,832,877	-	-	944,835,683
Loans and Receivables to Other Customers	47,569,381,219	26,240,595,594	9,787,237,164	588,302,161	-	84,185,516,138
Financial Investments - Available for Sale	-	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	501,989,658	6,569,173,660	7,544,178,880	51,939,540	-	14,667,281,738
Total Financial Assets	48,161,385,672	33,259,757,265	17,736,248,921	640,241,701	5,582,417,136	105,380,050,695
Financial Liabilities						
Due to Banks	3,929,370,630	2,635,250,145	779,069,145	-	171,919,667	7,515,609,587
Derivative Financial Instruments	-	-	-	-	2,135,543	2,135,543
Due to Other Customers	44,408,344,451	24,770,750,103	7,798,770,873	719,189,542	-	77,697,054,969
Term Debt and Other Borrowed Funds	3,221,451,285	3,875,500,166	-	-	-	7,096,951,451
Debentures	633,182,456	1,334,144,958	5,947,258,273	-	-	7,914,585,687
Total Financial Liabilities	52,192,348,822	32,615,645,372	14,525,098,291	719,189,542	174,055,210	100,226,337,237
Total Interest Rate Sensitivity Gap	(4,030,963,150)	644,111,893	3,211,150,630	(78,947,841)	5,408,361,926	5,153,713,458

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. This represents exposures the Bank has due to changes in the values of current holdings and future cash flow positions denominated in currencies other than the home currency.

Management of Currency Risk

The Bank's foreign exchange exposure is affected by movements in exchange rates. A Sensitivity Analysis is used to measure the potential impact on Bank's adverse movement in exchange rate by giving adverse shocks for Net Open Position (NOP) of the Bank including the on balance sheet and off balance sheet exposures and assess the results thereafter according to the policy. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Equity Price Risk

Equity price risk arises from the possibility that equity prices will fluctuate affecting the value of quoted equities.

Management of Equity Price Risk

The Bank does not hold any investment for strategic purposes other than the unquoted investments which are held for regulatory purposes. The value of quoted securities held in Bank's trading portfolio are directly linked to equity prices of Colombo Stock Exchange with increases/decreases being monitored and marked to market. A Sensitivity Analysis is carried out by a stress testing exercise that assesses the impact of the fall in the stock market index which is according to Bank's policy. However, the Bank does not hold a significant investment in quoted or unquoted shares as at the reporting period date.

All investments held for trading are valued at market prices as at the reporting period date and resulting gains and losses are taken into books as unrealised gains. Unquoted investments classified as 'Available for Sale' are carried at cost in the Statement of Financial Position.

40.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The Bank recognises the significance of operational risk, which is inherent in all areas of business. This includes legal risk but excludes strategic and reputation risk. Operational risks are inherent in the Bank's activities are managed within acceptable levels through an appropriate level of management focus on resources.

Management of Operational Risk

The Bank has an operational risk management policy approved by Board of Directors which clearly demonstrates the objectives and procedures in managing operational risks. This policy manual outlines the internal operating policies of the Bank's Operational Risk Management framework. The Board Integrated Risk Management Committee oversees the implementation of the operational risk management framework.

41 NET ASSET VALUE PER ORDINARY SHARE

	2016 Rs.	2015 Rs.
Total Equity Holders Funds (Rs.)	6,872,145,370	5,773,273,033
Number of Ordinary Shares in Issue	295,041,086	295,041,086
Net Assets Per Share (Rs.)	23.29	19.57

Notes to the Financial Statements

42 ADDITIONAL CASH FLOW INFORMATION

Cash and Cash Equivalents for Cash Flow Purpose

	2016	2015
	Rs.	Rs.
Cash in Hand (Note 16)	1,205,764,875	1,255,357,401
Balances with Foreign Banks (Note 16)	497,684,739	137,910,798
Placements with Banks (Note 18)	75,096,992	-
	1,778,546,606	1,393,268,199

The Statutory Balances with the Central Bank of Sri Lanka is not available to finance the Bank's day-to-day operations and therefore, is not considered as a part of cash and cash equivalents.

Change in Operating Assets

	2016	2015
	Rs.	Rs.
Net Change in Statutory Deposit with Central Bank of Sri Lanka	(2,051,823,555)	(919,096,837)
Net Change in Derivative Financial Instruments	(24,735,861)	3,662,697
Net Change in Financial Assets Held for Trading	(615,037,954)	1,399,991,601
Net Change in Loans and Receivables to Banks	190,704,275	6,652,414,647
Net Change in Loans and Receivables to Other Customers	(12,176,351,614)	(24,589,398,009)
Net Change in Other Assets	(41,925,800)	803,573,336
	(14,719,170,509)	(16,648,852,565)

Change in Operating Liabilities

	2016	2015
	Rs.	Rs.
Net Change in Due to Banks	6,722,782,062	6,381,446,270
Net Change in Other Borrowed Funds	(2,920,197,910)	2,494,316,859
Net Change in Derivative Financial Instruments	(2,135,543)	2,135,543
Net Change in Due to Other Customers	13,759,354,670	12,801,830,041
Net Change in Other Provisions and Accruals	(20,288,848)	63,954,352
Net Change in Other Liabilities	16,776,858	(384,999,759)
	17,556,291,289	21,358,683,306

Other Non Cash Items Included in Profit Before Tax

	2016	2015
	Rs.	Rs.
Depreciation of Property, Plant and Equipment	192,570,289	179,430,412
Amortisation of Intangible Assets	32,712,249	42,704,622
Loss/(Profit) on Disposal of Property, Plant and Equipment	(4,237,316)	49,036
Impairment Losses on Loans and Receivables	529,276,516	791,638,277
Impairment Reversal on Other Assets	(1,168,086)	(41,113,129)
Defined Benefit Plan Expenses	46,835,168	36,043,775
	795,988,820	1,008,752,993

Operational Cash Flow From Interest and Dividends

	2016	2015
	Rs.	Rs.
Interest Paid	6,362,584,856	3,813,544,014
Interest Received	12,892,097,678	8,651,700,021
Dividends Received	724,518	504,018

43 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31st December 2016	Within 12 Months	Over 12 Months	Total
	Rs.	Rs.	Rs.
Assets			
Cash and Cash Equivalents	1,703,449,614	-	1,703,449,614
Balances with Central Bank of Sri Lanka	6,218,564,125	-	6,218,564,125
Placements with Banks	75,096,992	-	75,096,992
Derivative Financial Instruments	26,279,628	-	26,279,628
Financial Assets - Held for Trading	629,744,707	-	629,744,707
Loans and Receivables to Banks	87,243,826	666,887,582	754,131,408
Loans and Receivables to Other Customers	54,456,555,232	41,377,204,090	95,833,759,322
Financial Investments - Available for Sale	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	14,738,364,272	7,015,064,174	21,753,428,446
Property, Plant and Equipment	-	1,489,391,189	1,489,391,189
Intangible Assets	-	315,704,246	315,704,246
Other Assets	303,603,640	341,768,088	645,371,728
Total Assets	78,238,902,036	51,212,177,216	129,451,079,252
Liabilities			
Due to Banks	14,226,584,050	11,807,599	14,238,391,649
Due to Other Customers	86,992,195,867	4,464,213,772	91,456,409,639
Term Debt and Other Borrowed Funds	1,240,608,531	5,522,339,189	6,762,947,720
Current Tax Liabilities	411,032,731	-	411,032,731
Deferred Tax Liabilities	-	445,769,180	445,769,180
Other Provisions and Accruals	170,399,266	-	170,399,266
Other Liabilities	946,389,511	197,423,312	1,143,812,823
Debentures	950,594,995	6,999,575,879	7,950,170,874
Total Liabilities	104,937,804,951	17,641,128,931	122,578,933,882
Net	(26,698,902,915)	33,571,048,285	6,872,145,370

Notes to the Financial Statements

As at 31st December 2015	Within 12 Months Rs.	Over 12 Months Rs.	Total Rs.
Assets			
Cash and Cash Equivalents	1,393,268,199	-	1,393,268,199
Balances with Central Bank of Sri Lanka	4,166,740,570	-	4,166,740,570
Derivative Financial Instruments	1,543,767	-	1,543,767
Financial Assets - Held for Trading	14,706,753	-	14,706,753
Loans and Receivables to Banks	174,836,463	769,999,220	944,835,683
Loans and Receivables to Other Customers	46,357,666,345	37,827,849,793	84,185,516,138
Financial Investments - Available for Sale	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	7,071,163,318	7,596,118,420	14,667,281,738
Property, Plant and Equipment	-	1,470,347,845	1,470,347,845
Intangible Assets	-	329,127,199	329,127,199
Other Assets	337,226,995	266,218,933	603,445,928
Total Assets	59,517,152,410	48,265,819,257	107,782,971,667
Liabilities			
Due to Banks	6,736,540,442	779,069,145	7,515,609,587
Derivative Financial Instruments	2,135,543	-	2,135,543
Due to Other Customers	69,179,094,554	8,517,960,415	77,697,054,969
Term Debt and Other Borrowed Funds	4,212,751,451	2,884,200,000	7,096,951,451
Current Tax Liabilities	114,935,472	-	114,935,472
Deferred Tax Liabilities	-	391,739,422	391,739,422
Other Provisions and Accruals	190,688,114	-	190,688,114
Other Liabilities	932,783,840	153,214,549	1,085,998,389
Debentures	162,523,814	7,752,061,873	7,914,585,687
Total Liabilities	81,531,453,230	20,478,245,404	102,009,698,634
Net	(22,014,300,820)	27,787,573,853	5,773,273,033

44 COMMITMENTS AND CONTINGENCIES

To meet the financial needs of customers, the Bank enters into various revocable commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain risk and are therefore a part of the overall risk of the Bank.

Documentary Credit and Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

The details of Commitments and Contingencies are given below;

44.1 Contingencies

	2016 Rs.	2015 Rs.
Guarantees	3,408,297,308	2,902,318,052
Documentary Credit	1,110,624,680	1,772,393,216
Forward Foreign Exchange Contracts/Currency Swaps	13,569,754,266	12,834,240,004
Collection Bills	2,545,757,661	2,250,596,858
	20,634,433,915	19,759,548,130

44.2 Commitments

	2016 Rs.	2015 Rs.
Undrawn Credit Commitments	7,369,496,213	6,463,659,703
	7,369,496,213	6,463,659,703
Total	28,003,930,128	26,223,207,833

There are no significant capital commitments as at the date of the Statement of Financial Position for which provision has not been made in the Financial Statements. (2015-Nil)

44.3 Material Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

Pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a reasonable security to cover the damages are not considered here as the Bank does not expect cash outflows from such claims. However, further adjustments are made to Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the probability of the outcome and also based on a reasonable estimation. The Bank's legal counsel is of the opinion that litigations which are currently pending will not have a material impact on the reported financial results or future operations of the Bank.

45 LEASE ARRANGEMENTS

45.1 Operating Lease Commitments - Bank as Lessee

The Bank has entered into commercial leases for branch premises. These lease agreements have an average life of between five and ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at reporting period are as follows:

	2016 Rs.	2015 Rs.
Within one year	213,236,744	138,073,436
After one year but not more than five years	698,626,056	468,847,992
More than five years	302,487,777	278,387,705
	1,214,350,577	885,309,133

The Bank has not entered into any agreements with third parties in the capacity of lessor of an operating lease asset.

Notes to the Financial Statements

45.2 Finance Lease Receivables

The Bank leases a variety of assets such as motor vehicles, machinery and equipments to third parties under finance leases. At the end of the lease terms assets may be sold to third parties or leased for further terms. The lease terms are fixed. Rentals are calculated to recover the cost of the assets less their residual values and to earn finance income.

As at 31st December 2016	Total Future Minimum Payment Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payment Rs.
Lease Rentals Receivable			
Within one year	3,927,306,092	930,321,230	2,996,984,862
After one year but not more than five years	6,919,977,251	1,124,456,386	5,795,520,865
More than five years	-	-	-
	10,847,283,343	2,054,777,616	8,792,505,727

As at 31st December 2015	Total Future Minimum Payment Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payment Rs.
Lease Rentals Receivable			
Within one year	3,345,086,995	850,809,019	2,494,277,976
After one year but not more than five years	6,894,118,496	1,071,351,814	5,822,766,682
More than five years	3,776,010	141,530	3,634,480
	10,242,981,501	1,922,302,363	8,320,679,138

Accumulated allowance for uncollectible minimum lease payments are included in impairment for loans and other losses.

46 RELATED PARTY DISCLOSURE

The Bank carries out transactions in the ordinary course of business with parties who are defined as "Related Parties" in LKAS 24 - 'Related Party Disclosures'. The terms and conditions of such transactions are disclosed under 46.4 and 46.5.

46.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

46.2 Transactions with Key Management Personnel of the Bank

The Bank has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the Bank as 'Key Management Personnel' in accordance with LKAS 24 : 'Related Party Disclosures'. Accordingly, the Chief Executive Officer and Board of Directors have been identified as 'Key Management Personnel' (KMP) for Accounting and Financial Reporting purposes.

46.3 Compensation of Key Management Personnel of the Bank

The following represents the compensation paid to Key Management Personnel of the Bank.

	2016 Rs.	2015 Rs.
Short-term Benefits	48,594,141	34,256,716
	48,594,141	34,256,716

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

46.4 Transactions with Key Management Personnel of the Bank

The Bank enters into transactions, arrangements and agreements with Key Management Personnel and Close family members of Key Management Personnel in the ordinary course of business. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest/commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for specific impairment losses on amounts owed by Key Management Personnel and Close Family Members.

	2016 Rs.	2015 Rs.
Assets		
Loans and Advances	39,733,837	10,505,724
Securities Purchase Under Re Sale Agreements	-	123,783,152
Liabilities		
Deposits and Borrowings	289,970,222	199,831,928
Securities Sold Under Re-Purchase Agreements	-	248,915,868
Income and Expenses		
Interest Income	5,717,406	2,521,737
Interest Expense	37,846,706	25,845,833
Net Trading Income	2,173,478	10,936,300

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

46.5 Transactions with Other Related Parties of the Bank

In addition to transactions with Key Management Personnel and their Close Family Members, the Bank enters into transactions, arrangements and agreements with entities that have a significant influence over the Bank in the ordinary course of business. The transactions below were made in the ordinary course of business on substantially the same terms, including interest/commission rates and security, as for comparable transactions with unrelated counterparties. The transactions did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for specific impairment losses on amounts owed by related parties.

	2016 Rs.	2015 Rs.
Assets		
Loans and Advances	704,404,169	297,582,511
Investment in Quoted Shares	-	14,706,753
Liabilities		
Deposits	2,356,438,400	1,794,098,407
Securities Sold under Repurchase Agreements	64,014,729	1,032,594,659
Commitments and Contingencies		
Guarantees, Letter of Credit and Others	93,886,275	136,026,778
Income and Expenses		
Interest Income	139,874,705	30,491,816
Interest Expense	227,006,232	109,647,724
Fee and Commission Income	2,128,394	7,707,148
Goods and Services Purchased	23,570,306	7,414,923

47 EVENTS AFTER THE REPORTING DATE

The Board of Directors at its meeting held on 30th November 2016, decided to go for a rights issue at the proportion of 1 new ordinary share for every two ordinary shares held at Rs. 14/- per share to raise Rs. 2,065,287,602/-. The shareholders of the Bank have approved the corresponding resolution at the Extraordinary General Meeting held on 31st January 2017.

There were no events after the reporting date which required adjustments to or disclosures in the Financial Statements except for above.

48 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the local prudential regulator, Central Bank of Sri Lanka. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Sri Lanka.

As required by the circulars issued by Central Bank of Sri Lanka on "Enhancement of Minimum Capital Requirement of Banks", Licensed Commercial Banks are required increase its core capital up to Rs.10 billion. Accordingly, Central Bank of Sri Lanka has approved following revised staggered capital plan for the Bank.

- (a) Rs. 5.0 billion by 1st January 2016
- (b) Rs. 7.5 billion by 31st March 2017
- (c) Rs. 10.0 billion by 1st January 2018

Capital Management

The primary objectives of the Bank's capital management policy is to ensure that the Bank complies with externally imposed capital requirements and maintains healthy credit ratings and capital ratios to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. However, these are under constant review by the Board of Directors.

The 'Regulatory Capital' under Basel II consists of Core (Tier 1) Capital, which comprises Stated Capital, Statutory Reserve Fund, Published Retained Earnings and Other General Reserves net of 50% of Investments in Capital of Other Banks and Financial Institutions and Intangible Assets. The other component of Regulatory Capital is Supplementary (Tier II) Capital, which includes Approved Revaluation Surpluses, Subordinated Term Debt and General Provisions net of 50% of Investments in Capital of Other Banks and Financial Institutions.

The Central Bank of Sri Lanka sets and monitors capital requirements for Licensed Commercial Banks in Sri Lanka based on the Basel framework. Thus, the Bank's operations are directly supervised by the Central Bank of Sri Lanka and the Bank is required to comply with the Provisions of the Basel II capital requirements at present. These require Licensed Commercial Banks in Sri Lanka to maintain a minimum Core Capital (Tier 1) Ratio of 5% and a minimum Total Capital Ratio of 10%. The Bank reported a Tier 1 Capital ratio of 8.37% and a Total Capital Adequacy Ratio of 11.40% as at 31st December 2016 which remain above the minimum regulatory requirement.

SEGMENT REPORTING

	2016			Total Rs.
	Retail Banking Rs.	Corporate Banking Rs.	Treasury and Investments Rs.	
Gross Income				
Third Party	9,480,584,979	2,681,274,201	2,982,883,066	15,144,742,246
Inter-Segment	1,013,716,587	180,955,472	(1,194,672,059)	-
Total Income	10,494,301,566	2,862,229,673	1,788,211,007	15,144,742,246
Extract of Results				
Interest Income	8,617,250,220	2,361,553,139	2,387,739,576	13,366,542,935
Interest Expense	(5,941,390,031)	(1,773,393,663)	(1,018,380,721)	(8,733,164,415)
Inter - Segment	1,013,716,587	180,955,472	(1,194,672,059)	-
Net Interest Income	3,689,576,776	769,114,948	174,686,796	4,633,378,520
Fee and Commission Income	855,834,964	319,338,561	-	1,175,173,525
Fee and Commission Expense	(56,318,208)	-	(13,134,423)	(69,452,631)
Net Fee and Commission Income/(Expense)	799,516,756	319,338,561	(13,134,423)	1,105,720,894
Net Gain from Trading	-	-	275,095,387	275,095,387
Net Gain from Available for Sale Financial Investments	-	382,500	-	382,500
Other Operating Income	7,499,796	-	320,048,103	327,547,899
Impairment for Loans and Other Losses	(225,782,106)	(302,326,324)	-	(528,108,430)
Net Operating Income	4,270,811,222	786,509,685	756,695,863	5,814,016,770
Depreciation of Property, Plant and Equipment	133,438,434	36,394,175	22,737,680	192,570,289
Amortisation of Intangible Assets	22,667,418	6,182,342	3,862,489	32,712,249
Segment Result	4,114,705,370	743,933,168	730,095,694	5,588,734,232
Unallocated Expenses	-	-	-	3,297,889,234
Value Added Tax and Nation Building Tax on Financial Services	-	-	-	483,265,444
Profit Before Tax	-	-	-	1,807,579,554
Income Tax Expense	-	-	-	555,874,732
Profit for the Year	-	-	-	1,251,704,822
Other Comprehensive Income for the Year Net of Tax	-	-	-	(5,311,942)
Total Comprehensive Income for the Year	-	-	-	1,246,392,880
Segment Assets	68,303,530,530	19,909,460,034	33,162,230,116	121,375,220,680
Unallocated Assets	-	-	-	8,075,858,572
Total Assets	68,303,530,530	19,909,460,034	33,162,230,116	129,451,079,252
Segment Liabilities	88,085,194,240	18,262,753,440	14,059,972,197	120,407,919,877
Unallocated Liabilities and Equity	-	-	-	9,043,159,375
Total Liabilities and Equity	88,085,194,240	18,262,753,440	14,059,972,197	129,451,079,252

Notes to the Financial Statements

	2015			Total Rs.
	Retail Banking Rs.	Corporate Banking Rs.	Treasury and Investments Rs.	
Gross Income				
Third Party	6,567,518,511	2,243,940,432	1,947,678,624	10,759,137,567
Inter-Segment	913,072,975	(238,829,479)	(674,243,496)	-
Total Income	7,480,591,486	2,005,110,953	1,273,435,128	10,759,137,567
Extract of Results				
Interest Income	5,966,079,386	1,975,338,780	1,097,552,732	9,038,970,898
Interest Expense	(3,612,016,936)	(1,209,590,234)	(254,774,974)	(5,076,382,144)
Inter - Segment	913,072,975	(238,829,479)	(674,243,496)	-
Net Interest Income	3,267,135,425	526,919,067	168,534,262	3,962,588,754
Fee and Commission Income	593,285,710	268,097,635	1,641,684	863,025,029
Fee and Commission Expense	(32,541,825)	-	(15,888,306)	(48,430,131)
Net Fee and Commission Income/(Expense)	560,743,885	268,097,635	(14,246,622)	814,594,898
Net Gain from Trading	-	342,017	303,615,996	303,958,013
Net Gain from Available for Sale Financial Investments	-	162,000	-	162,000
Other Operating Income	8,153,415	-	544,868,212	553,021,627
Impairment for Loans and Other Losses	(443,023,639)	(307,501,509)	-	(750,525,148)
Net Operating Income	3,393,009,086	488,019,210	1,002,771,848	4,883,800,144
Depreciation of Property, Plant and Equipment	124,754,015	33,439,287	21,237,110	179,430,412
Amortisation of Intangible Assets	29,691,584	7,958,585	5,054,453	42,704,622
Segment Result	3,238,563,487	446,621,338	976,480,285	4,661,665,110
Un-allocated Expenses	-	-	-	2,757,664,807
Value Added Tax and Nation Building Tax on Financial Services	-	-	-	361,870,606
Profit Before Tax	-	-	-	1,542,129,697
Income Tax Expense	-	-	-	501,611,752
Profit for the Year	-	-	-	1,040,517,945
Other Comprehensive Income for the Year Net of Tax	-	-	-	(1,873,839)
Total Comprehensive Income for the Year	-	-	-	1,038,644,106
Segment Assets	53,838,624,614	25,696,444,382	22,216,145,849	101,751,214,845
Unallocated Assets				6,031,756,822
Total Assets	53,838,624,614	25,696,444,382	22,216,737,623	107,782,971,667
Segment Liabilities	66,549,997,208	23,856,392,740	9,819,770,853	100,226,160,801
Unallocated Liabilities and Equity				7,556,810,866
Total Liabilities and Equity	66,549,997,208	23,856,392,740	9,819,770,853	107,782,971,667

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

50 COMPARATIVE INFORMATION

The presentation and classification of certain Financial Statement Items are amended to ensure the comparability with the current year.

Statement of Comprehensive Income (Profit or Loss)

	Note	As Previously Reported Rs.	Re-Classification Rs.	Current Presentation Rs.
Fee and Commission Income	50.1	816,458,748	46,566,281	863,025,029
Other Operating Income	50.1	599,587,908	(46,566,281)	553,021,627

50.1 Certain Non Interest Income items included under ' Other Operating Income' have been reclassified as 'Fee and Commission Income' in the Statement of Comprehensive Income (Profit or Loss) for better presentation.

50.2 The above re-classification did not have an impact on the Bank's Statement of Financial Position, Other Comprehensive Income or Operating, Financing or Investing Cash Flows of the bank.

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

The following explains the Other Disclosure Requirements under the prescribed format issued by the Central Bank of Sri Lanka for the Preparation of Annual Financial Statements of Licensed Commercial Banks.

1. Information about the Significance of Financial Instruments for Financial Position and Performance		
1.1 Statement of Financial Position		
1.1.1	Disclosures on categories of financial assets and financial liabilities.	Note 38 to the Financial Statements - Analysis of Financial Assets and Liabilities by Measurement basis
1.1.2	Other Disclosures	
(i)	Special disclosures about financial assets and financial liabilities designated to be measured at Fair Value through Profit or Loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Not Applicable
(ii)	Reclassifications of financial instruments from one category to another.	Note 39.3 to the Financial Statements - Re-classification of Financial Assets
(iii)	Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note to the Financial Statements - Note 24.1 - Financial Assets Held to Maturity Pledged as a Collateral
(iv)	Reconciliation of the allowance account for credit losses by class of financial assets.	Note 22.4 - Movement in Individual and Collective Impairment during the Year
(v)	Information about compound financial instruments with multiple embedded derivatives.	Not Applicable
(vi)	Significant Breaches of terms of loan agreements.	Not Applicable
1.2 Statement of Comprehensive Income		
1.2.1	Disclosures on items of income, expense, gains and losses.	Note 4 - 13 to the Financial Statements
1.2.2	Other Disclosures	
(i)	Total interest income and total interest expense for those financial instruments that are not measured at Fair Value through Profit or Loss.	Note 4.2 to the Financial Statements - Net Interest Income from Financial Instruments not Measured at Fair Value through Profit or Loss.
(ii)	Fee income and expense.	Note 5 to the Financial Statements - Net Fee and Commission Income
(iii)	Amount of impairment losses by class of financial assets.	Note 9 to the Financial Statements - Impairment for Loans and Other Losses
(iv)	Interest income on impaired financial assets.	Note 4 to the Financial Statements - Net Interest Income
1.3 Other Disclosures		
1.3.1	Accounting policies for financial instruments.	Note 2.8 to the Financial Statements - Summary of Significant Accounting Policies
1.3.2	Information on hedge accounting	Not Applicable
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:	
(i)	Comparable Carrying Amounts.	} Note 39 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 23 to the Financial Statements - Financial Investments - Available for Sale

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 40 to the Financial Statements - Risk Management
2.1.2	Management's objectives, policies, and processes for managing those risks.	Note 40 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 40 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 40 to the Financial Statements - Risk Management and Risk Management Report in pages 74 to 80 of the Annual Report.
(i)	Credit Risk	
(a)	Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	Note 40.2 to the Financial Statements - Credit Risk
(b)	For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset	
(c)	Information about collateral or other credit enhancements obtained or called.	
(d)	Other disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	
(ii)	Liquidity Risk	
(a)	A maturity analysis of financial liabilities.	Note 40.3 to the Financial Statements - Liquidity Risk and Risk Management Report on pages 74 to 80 of the Annual Report.
(b)	Description of approach to risk management.	
(c)	Other disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

(iii) Market Risk		
<ul style="list-style-type: none"> (a) A sensitivity analysis of each type of market risk to which the entity is exposed. (b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure. (c) Other disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H). 	}	Note 40.4 to the Financial Statements - Market Risk
(iv) Operational Risk disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).		
(v) Equity Risk in the Banking Book		
(a) Qualitative Disclosures		
<ul style="list-style-type: none"> - Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. 		Note 40.4 to the Financial Statements - Market Risk and Risk Management Report on pages 74 to 80 of the Annual Report.
<ul style="list-style-type: none"> - Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. 		Note 40.4 to the Financial Statements - Market Risk
(b) Quantitative Disclosures		
<p>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.</p>		Note 20 to the Financial Statements - Financial Assets - Held for Trading (Quoted Equities) and Note 6 - Net Gain from Trading
(vi) Interest Rate Risk in the Banking Book		
(a) Qualitative Disclosures		
<p>Nature of Interest Rate Risk in the Banking Book (IRRBB) and key assumptions.</p>		
(b) Quantitative Disclosures		
<p>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)</p>	}	Note 40.4 to the Financial Statements - Market Risk
2.2.3 Information on concentrations of risk		
		Note 40 to the Financial Statements - Risk Management and Risk Management Report on Pages 74 to 80 of the Annual Report.

3. Other Disclosures	
3.1 Capital	
3.1.1	Capital Structure
(i)	Qualitative Disclosures
	Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.
(ii)	Quantitative Disclosure
(a)	The amount of Tier 1 capital, with separate disclosure of
	- Paid-up share capital/common stock
	- Reserves
	- Non-controlling interests in the equity of subsidiaries
	- Innovative instruments
	- Other capital instruments
	- Deductions from Tier 1 capital
(b)	The total amount of Tier 2 capital
(c)	Other deductions from capital
(d)	Total eligible capital
3.1.2	Capital Adequacy
(i)	Qualitative Disclosures
	A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.
(ii)	Quantitative Disclosures
(a)	Capital requirements for credit risk, market risk and operational risk
(b)	Total and Tier 1 Capital Ratio

Note 48 to the Financial Statements - Capital and Capital Adequacy Computation on pages 212 and 213 of the Annual Report.

Capital Adequacy Computation on pages 212 and 213 of the Annual Report.

Capital Adequacy Computation on pages 212 and 213 of the Annual Report.

Capital Adequacy Computation

Capital Base as at 31st December (As per Basel II)	2016 Rs. 000	2015 Rs. 000
Tier I: Core Capital		
Paid up Ordinary Shares and Share Premium (Stated Capital)	1,548,966	1,548,966
Statutory Reserve Fund	304,581	241,996
Published Retained Profits	4,754,101	3,711,605
Core Capital (Tier I Capital)	6,607,648	5,502,567
Deductions/Adjustments:		
Intangible Assets	315,704	329,127
Total Eligible Core Capital (Eligible Tier I Capital)	6,291,944	5,173,440
Tier II : Supplementary Capital		
Revaluation Reserves	132,249	135,353
General Provisions	405,150	336,640
Approved Subordinated Term Debt	1,737,500	2,487,499
Total Eligible Supplementary Capital (Tier II Capital)	2,274,899	2,959,492
Capital Base (Total Regulatory Capital)	8,566,843	8,132,932
Computation of Ratios		
Total Risk Weighted Assets		
Risk Weighted Assets for Credit Risk	66,850,016	59,658,274
Risk Weighted Assets for Market Risk	300,650	44,464
Risk Weighted Assets for Operational Risk	8,001,700	6,412,354
Total Risk Weighted Assets	75,152,366	66,115,092
Core Capital Ratio (Minimum Requirement - 5%)		
Total Eligible Core Capital (Eligible Tier I Capital)	6,291,944	5,173,440
Total Risk Weighted Assets	75,152,366	66,115,092
	8.37%	7.82%
Total Capital Ratio (Minimum Requirement - 10%)		
Capital Base (Total Regulatory Capital)	8,566,843	8,132,932
Total Risk Weighted Assets	75,152,366	66,115,092
	11.40%	12.30%

Computation of Risk Weighted Assets - (Basel II)

Credit Risk

On Balance Sheet Exposure for Credit Risk

As at 31st December 2016	Balance Rs. 000	Risk Weight Factor %	Risk Weighted Amount for Credit Risk Rs. 000
Assets - Exposures			
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	36,513,455	-	-
Claims on Banks	1,329,489	20 - 150	552,988
Claims on Financial Institutions	6,543,645	20 - 150	3,551,500
Claims on Corporates	6,913,648	20 - 150	6,450,770
Retail Claims	56,394,797	75 - 100	45,301,919
Claims on Secured Residential Property	3,873,320	50 - 100	2,507,606
Non Performing Advances	2,997,401	50 - 150	4,094,021
Cash Items	1,251,170	0 - 20	9,063
Other Assets	1,918,670	100 - 150	1,921,748
Total On Balance Sheet Exposure	117,735,595		64,389,615

Off Balance Sheet Exposure for Credit Risk

As at 31st December 2016	Principle Amount of Off Balance Sheet items Rs. 000	Credit Conversion Factor %	Credit Equivalent Amount Rs. 000	Risk Weight Factor %	Credit Equivalent of Off Balance Sheet items Rs. 000
Financial Guarantees, Bank Acceptances and Other Guarantees	1,605,026	100	1,605,026	100	1,605,026
Performance related Guarantees and Warranties and Stand by Credit Lines	486,862	50	243,431	100	243,431
Shipping Guarantees	915,644	20	183,129	100	183,129
Documentary Letter of Credit	1,198,714	20	239,743	100	239,743
Undrawn Overdrafts and Other Credit Facilities	7,369,496	0-50	-	100	-
Foreign Exchange Contracts	9,453,632	2-5	189,072	100	189,072
Total Off Balance Sheet Exposures	21,029,374		2,460,401		2,460,401

Market Risk

As at 31st December 2016	Capital Charge Rs. 000	Risk Weighted Amount for Market Risk Rs. 000
Interest rate	16,305	163,052
Equity	2,545	25,446
Foreign Exchange	11,215	112,152
Total Risk Adjusted Balance for Market Risk	30,065	300,650

Operational Risk

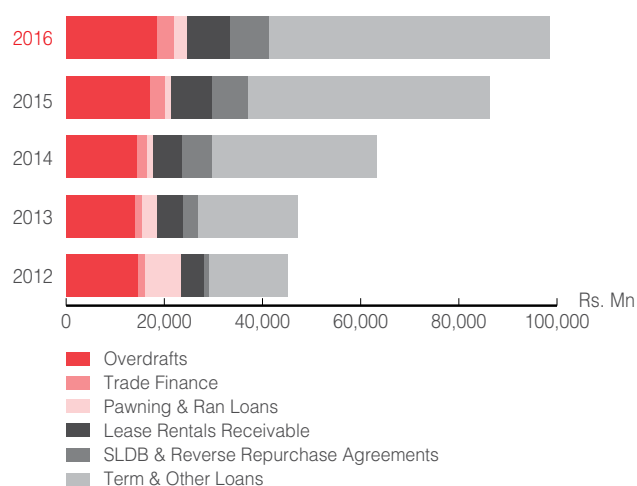
As at 31st December 2016	Capital Charge Rs. 000	Risk Weighted Amount for Operational Risk Rs. 000
Average Gross income	5,334,467	-
15% of Average Gross income	800,170	-
Total Risk Adjusted Balance for Operational Risk	800,170	8,001,700

For the Quarter ended / For the Quarter	2016				2015			
	31st	30th	30th	31st	31st	30th	30th	31st
	December Rs. 000	September Rs. 000	June Rs. 000	March Rs. 000	December Rs. 000	September Rs. 000	June Rs. 000	March Rs. 000
Extract of Statement of Financial Position								
Total Assets	129,451,079	126,979,486	120,770,183	113,335,292	107,782,972	103,062,215	85,087,354	81,050,704
Loans and Receivables to Other Customers	95,833,759	92,524,513	89,413,991	86,977,778	84,185,516	79,600,283	70,077,795	66,088,491
Due to Other Customers	91,456,410	88,434,568	83,646,382	83,792,648	77,697,055	77,440,819	69,707,661	65,034,716
Debentures	7,950,171	7,983,457	8,024,477	7,902,944	7,914,586	7,993,402	3,929,999	3,889,488
Shareholders' Funds	6,872,145	6,536,782	6,234,666	5,929,583	5,773,273	5,485,592	5,185,355	4,911,599
Extract of Statement of Comprehensive Income								
Net Interest Income	1,240,859	1,054,712	1,152,835	1,184,972	1,041,853	1,095,350	975,467	849,919
Other Income	435,771	446,377	432,144	394,455	381,206	444,941	430,590	414,999
Total Operating Income	1,676,630	1,501,089	1,584,979	1,579,427	1,423,059	1,540,291	1,406,057	1,264,918
Impairment for Loans & other Losses	(248,653)	(22,073)	(90,146)	(167,236)	(63,399)	(244,962)	(217,264)	(224,900)
Non-Interest Expenses	(1,014,584)	(1,027,830)	(1,036,323)	(927,700)	(909,365)	(839,343)	(823,120)	(769,842)
Income Tax Expense	(67,461)	(149,070)	(158,684)	(180,660)	(160,745)	(155,746)	(91,915)	(93,206)
Profit for the Quarter	345,932	302,116	299,826	303,831	289,550	300,240	273,758	176,970
Profitability (YTD) Ratios								
Net Interest Margin (Rs)	3.87	3.86	4.11	4.30	4.34	4.48	4.49	4.29
Earnings Per Share (Rs)	4.24	4.09	4.10	4.13	3.53	3.40	3.08	2.43
Return on Equity (%)	19.97	19.72	20.25	20.83	19.94	19.77	18.38	14.88
Return on Assets (%)	1.05	1.03	1.06	1.10	1.14	1.15	1.11	0.89
Capital Adequacy Ratios								
Eligible Core Capital (%)	8.37	7.72	7.88	7.14	7.82	7.14	7.03	7.72
Total Capital (%)	11.40	11.06	11.53	11.10	12.30	11.66	11.49	12.56
Asset Quality Ratios								
Gross NPA (%)	4.74	4.65	4.39	4.65	4.84	5.36	5.90	6.42
Net NPA (%)	2.95	2.93	2.70	3.03	3.26	3.64	4.28	4.47
Liquidity Ratios								
Domestic Banking Unit (%)	28.03	26.43	26.59	25.83	24.39	23.98	23.39	24.83
Foreign Currency Banking Unit (%)	38.82	45.30	49.29	62.32	50.63	41.96	54.60	24.28

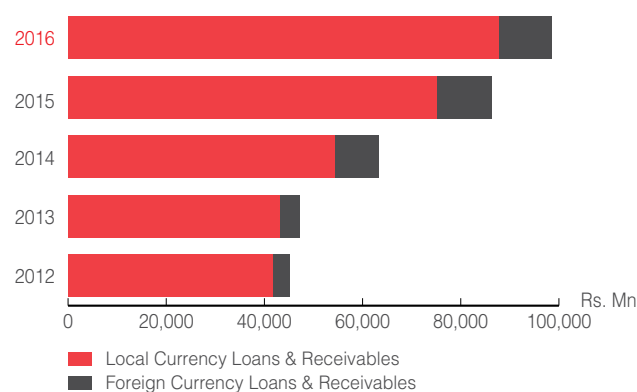
Analysis of Loans and Receivables to Other Customers

	2016 Rs. 000	2015 Rs. 000	2014 Rs. 000	2013 Rs. 000	2012 Rs. 000
By Product					
Overdrafts	18,446,880	17,101,701	14,418,732	13,927,292	14,644,630
Trade Finance	3,462,955	2,911,459	1,991,724	1,588,560	1,319,974
Credit Cards	2,885,197	1,466,930	625,292	213,001	94,683
Pawning & Ran Loans	2,646,972	1,381,924	1,308,199	2,997,534	7,412,047
Staff Loans	809,692	540,002	362,297	347,212	325,278
Term Loans	48,473,625	41,314,076	28,391,517	15,213,900	9,556,463
Lease Rentals Receivable	8,792,506	8,320,679	5,767,026	5,149,445	4,591,944
Margin Trading	2,447,732	2,724,766	2,110,593	1,830,969	2,131,805
Reverse Repurchase Agreements	1,683,561	984,360	1,000,176	1,182,698	-
Sri Lanka Development Bonds	6,207,879	6,245,116	5,195,616	1,984,459	1,168,674
Debentures	1,793,326	2,262,835	1,176,040	-	12,897
Others	859,461	1,068,804	945,509	2,693,632	3,831,111
Total	98,509,786	86,322,652	63,292,721	47,128,702	45,089,506
By Currency					
Sri Lankan Rupee	87,761,271	75,128,454	54,267,574	43,159,703	41,702,645
United States Dollar	8,935,857	9,676,145	8,906,719	3,882,484	3,191,257
Great Britain Pound	14,662	36,120	11,204	43,069	48,702
Others	1,797,996	1,481,933	107,224	43,446	146,902
Total	98,509,786	86,322,652	63,292,721	47,128,702	45,089,506

By Product

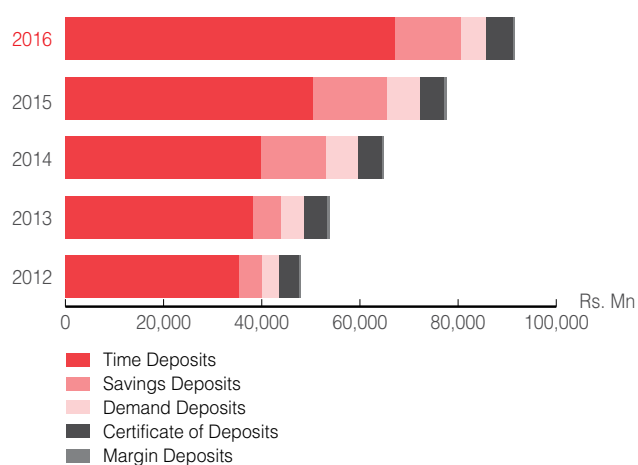


By Currency

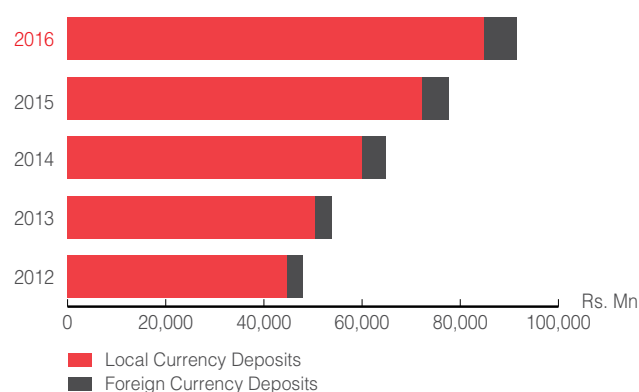


	2016 Rs. 000	2015 Rs. 000	2014 Rs. 000	2013 Rs. 000	2012 Rs. 000
By Product					
Demand Deposits	5,141,991	6,881,532	6,456,819	4,773,215	3,559,094
Savings Deposits	13,452,803	14,880,794	13,360,712	5,629,927	4,533,010
Time Deposits	67,047,837	50,480,498	39,743,568	38,188,235	35,425,977
Certificate of Deposits	5,488,402	4,887,367	4,820,760	4,558,118	3,990,847
Margin Deposits	325,377	566,864	513,366	686,402	402,160
Total	91,456,410	77,697,055	64,895,225	53,835,897	47,911,088
By Currency					
Sri Lankan Rupee	84,851,489	72,192,571	59,943,968	50,475,100	44,692,636
United States Dollar	5,191,710	4,528,541	4,069,126	2,317,692	2,021,617
Great Britain Pound	344,855	428,676	373,923	306,726	217,796
Others	1,068,356	547,267	508,208	736,379	979,039
Total	91,456,410	77,697,055	64,895,225	53,835,897	47,911,088

By Product

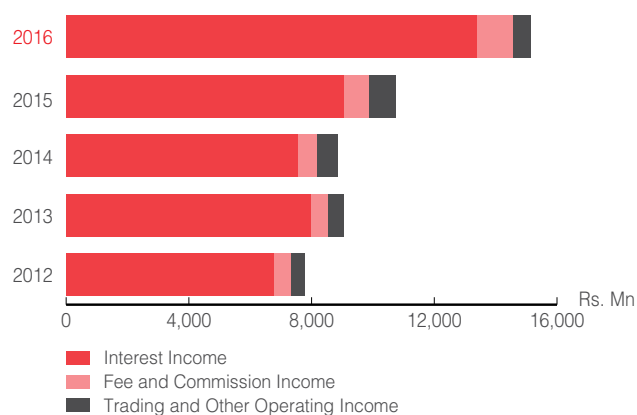


By Currency

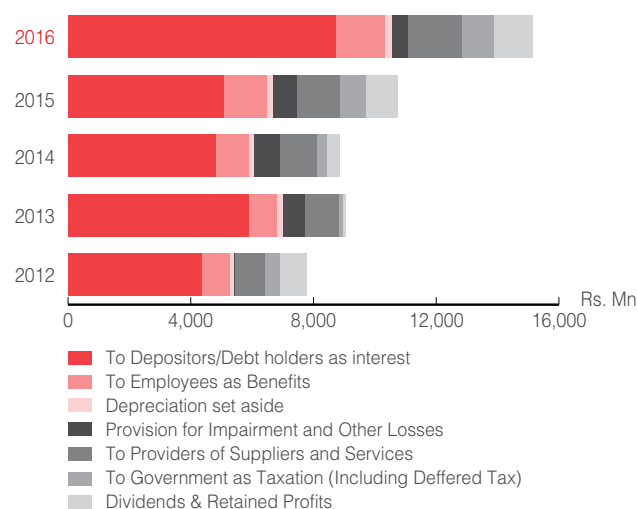


	2016 Rs. 000	2015 Rs. 000	2014 Rs. 000	2013 Rs. 000	2012 Rs. 000
Sources of Income					
Interest Income	13,366,543	9,038,971	7,541,725	7,976,952	6,766,833
Fee and Commission Income	1,175,173	863,025	643,869	548,298	540,197
Trading and Other Operating Income	603,026	857,142	658,362	528,786	459,189
Total	15,144,742	10,759,138	8,843,956	9,054,036	7,766,219
Distribution of Income					
To Depositors and Debt Providers as Interest	8,733,164	5,076,382	4,801,741	5,881,653	4,360,678
To Employees as Benefits	1,613,604	1,389,142	1,080,881	942,167	894,064
Depreciation and Amortisation set aside	225,283	222,135	178,843	168,061	140,943
Provision for Impairment and Other Losses	528,108	750,525	814,854	743,261	47,881
To Providers of Supplies and Services	1,753,738	1,416,953	1,213,128	1,090,454	967,939
To Government as Taxation	1,039,140	863,483	339,298	114,602	494,663
Income Tax (Including Deferred Tax)	555,875	501,612	123,223	10,067	285,357
VAT and NBT on Financial Services	483,265	361,871	216,075	104,535	209,306
To Shareholders as Dividends & Retained Profits	1,251,705	1,040,518	415,211	113,838	860,051
Total	15,144,742	10,759,138	8,843,956	9,054,036	7,766,219

Sources of Income

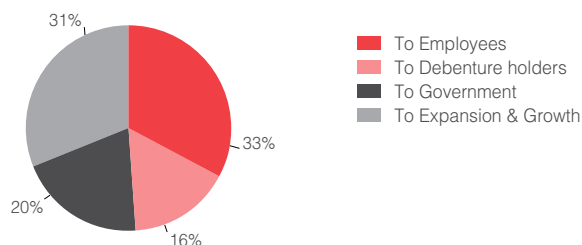


Distribution of Income

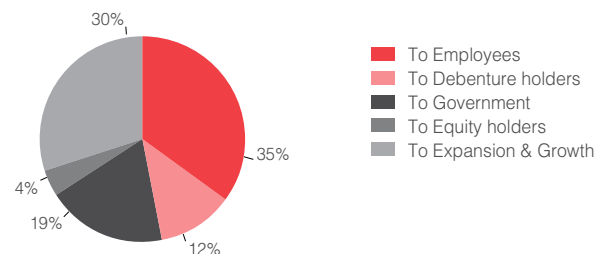


	2016 Rs. 000	%	2015 Rs. 000	%
Value Added				
Income from Banking Services	15,144,742		10,759,138	
Cost of Funds and Services	(9,690,892)		(6,015,653)	
Value Added by Banking Services	5,453,850		4,743,485	
Impairment for Loans and Other Losses	(528,108)		(750,525)	
Total	4,925,742		3,992,960	
Distribution of Value Added				
To Employees				
Salaries and Other Benefits	1,613,604	33%	1,389,142	35%
To Debenture holders				
Interest to Debenture holders	796,010	16%	477,682	12%
To Government				
Income Tax	499,779		391,122	
VAT and NBT on Financial Services	483,265		361,871	
	983,044	20%	752,993	19%
To Equity holders				
Dividends to Shareholders	-	-	147,520	4%
To Expansion and Growth				
Retained Profit	1,251,705		892,998	
Depreciation and Amortisation	225,283		222,135	
Deferred Taxation	56,096		110,490	
	1,533,084	31%	1,225,623	30%
Total	4,925,742	100%	3,992,960	100%

Distribution of Value Added 2016



Distribution of Value Added 2015



Rs. Mn

For the Year ended 31st December	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Results										
Income	2,317.14	3,241.16	3,862.07	3,484.41	5,278.21	7,766.22	9,054.04	8,843.96	10,759.14	15,144.74
Interest Income	1,968.55	2,864.60	3,159.66	3,027.66	4,582.66	6,766.83	7,976.95	7,541.72	9,038.97	13,366.54
Interest Expense	1,223.53	1,798.44	1,878.01	1,402.26	2,268.62	4,360.68	5,881.65	4,801.74	5,076.38	8,733.16
Net Interest Income	745.02	1,066.16	1,281.65	1,625.40	2,314.04	2,406.15	2,095.30	2,739.98	3,962.59	4,633.38
Other Income	348.60	376.55	702.40	456.75	695.55	999.39	1,077.08	1,302.23	1,720.17	1,778.20
Operating Expenses & Provisions	776.83	1,020.88	1,318.90	1,388.22	1,855.62	2,260.13	3,048.47	3,503.78	4,140.63	4,604.00
Profit before Income Tax	316.79	421.83	665.15	693.93	1,153.97	1,145.41	123.91	538.43	1,542.13	1,807.58
Income tax	100.71	198.20	277.33	332.14	342.20	285.36	10.07	123.22	501.61	555.88
Profit for the Year	216.08	223.63	387.82	361.79	811.77	860.05	113.84	415.21	1,040.52	1,251.70
As at 31st December										
Assets										
Cash and Cash Equivalents	612.33	843.93	588.33	1,110.07	2,430.15	1,203.05	1,203.74	1,334.41	1,393.27	1,703.45
Balances with Central Bank of Sri Lanka	856.28	704.59	807.21	1,060.32	2,250.43	3,516.87	2,799.58	3,247.64	4,166.74	6,218.56
Placements with Banks	422.17	59.18	96.81	-	-	500.13	104.62	-	-	75.10
Derivative Financial Instruments	-	-	-	1.14	1.51	0.05	2.76	5.21	1.54	26.28
Financial Assets - Held for Trading	-	2,964.53	3,829.34	3,432.63	190.98	12.38	9,170.42	1,414.70	14.71	629.74
Loans and Receivables to Banks	-	-	-	-	-	-	12.00	7,597.25	944.84	754.13
Loans and Receivables to Customers	11,431.77	12,776.96	12,693.80	22,792.38	34,619.64	43,213.37	44,728.69	60,346.64	84,185.52	95,833.76
Financial Investments - Available for Sale	3.14	2.14	2.14	2.14	2.14	6.16	6.16	6.16	6.16	6.16
Financial Investments - Held to Maturity	1,144.71	551.93	2,270.81	1,210.12	5,260.63	4,896.05	2,849.48	2,563.36	14,667.28	21,753.43
Property, Plant and Equipment	552.38	587.17	595.56	614.65	1,026.34	1,224.24	1,204.30	1,458.55	1,470.35	1,489.39
Intangible Assets	16.56	31.72	36.13	48.67	52.15	73.58	65.80	50.61	329.13	315.70
Other Assets	486.36	462.19	638.70	969.62	1,164.92	1,428.41	2,770.90	1,580.74	603.43	645.38
Total Assets	15,525.70	18,984.34	21,558.83	31,241.74	46,998.89	56,074.29	64,918.45	79,605.27	107,782.97	129,451.08
Liabilities										
Borrowings & Due to Banks	505.25	1,399.60	1,326.78	4,470.46	4,916.09	1,121.65	4,743.51	4,294.47	14,612.56	21,001.34
Derivative Financial Instruments	-	-	-	3.23	1.26	0.63	24.63	-	2.14	-
Due to Other Customers	12,523.47	14,951.08	16,914.26	21,951.82	36,353.39	47,911.09	53,835.90	64,895.23	77,697.05	91,456.41
Current Tax Liabilities	58.81	121.57	245.56	262.37	227.90	151.31	-	-	114.94	411.03
Deferred Tax Liabilities	41.83	55.61	10.53	83.49	121.69	177.13	150.79	281.98	391.74	445.77
Other Liabilities and Provisions	641.36	753.83	1,032.04	1,552.03	1,697.87	1,694.06	1,330.16	1,564.01	1,276.69	1,314.21
Debentures	303.79	110.81	50.00	50.00	-	785.83	784.69	3,834.95	7,914.58	7,950.17
Total Liabilities	14,074.51	17,392.50	19,579.17	28,373.40	43,318.20	51,841.70	60,869.68	74,870.64	102,009.70	122,578.93
Shareholders' Funds										
Stated Capital	1,106.40	1,106.40	1,106.40	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97
Reserves	344.79	485.44	873.26	1,319.37	2,131.72	2,683.62	2,499.80	3,185.66	4,224.30	5,323.18
Total Shareholders' Funds	1,451.19	1,591.84	1,979.66	2,868.34	3,680.69	4,232.59	4,048.77	4,734.63	5,773.27	6,872.15
Total Liabilities and Shareholders' Funds	15,525.70	18,984.34	21,558.83	31,241.74	46,998.89	56,074.29	64,918.45	79,605.27	107,782.97	129,451.08
Commitments and Contingencies	2,296.66	2,772.80	3,151.96	10,887.66	15,331.43	13,743.92	26,124.67	22,200.09	26,223.21	28,003.93
Share Information										
Earnings per Share (Rs.)	0.98	1.01	1.61	1.31	2.75	2.92	0.39	1.41	3.53	4.24
Net Assets Value per Share (Rs.)	6.56	7.20	8.95	9.44	12.48	14.35	13.72	16.05	19.57	23.29
Other Information										
No of Employees	546	507	511	670	1,096	1,153	1,169	1,302	1,420	1,458
No of Branches	27	32	35	41	64	73	77	78	79	82

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	125
7.6 (ii)	Principal activities of the entity during the year and any changes therein	Notes to the Financial Statements (Note 1 - Corporate Information)	144
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	221
7.6 (iv)	The Public Holding percentage and Number of Shares Held by Public	Item 02 of the Investor Relations	222
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	125
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Item 05 of the Investor Relations	224
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Item 06 of the Investor Relations	224
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Notes to the Financial Statements (Note 25)	167
7.6 (ix)	Number of shares representing the Entity's Stated Capital	Notes to the Financial Statements (Note 35)	175
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	222
7.6 (xi)	Ratios and Market Price information <ul style="list-style-type: none"> • Equity Ratios • Market Value • Debenture Information • Credit Rating 	Item 04 of the Investor Relations Item 04 of the Investor Relations Item 04 of the Investor Relations Item 04 of the Investor Relations and Corporate Information	223 & 224
7.6 (xii)	Significant changes in the Entity's Property, Plant and Equipment and the market value of land, if the value differs substantially from the book value.	Notes to the Financial Statements (Note 25)	167
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	224
9.3.2.(b)	Disclosure of recurrent related party transactions	Item No. 8 of Investor Relations	224
9.3.2.(c)	Report of the Board Related Party Transactions Review Committee containing specified disclosures	Board Related Party Transactions Review Committee	124
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	125

1. Stock Exchange Listing

The Issued Ordinary Shares and Debentures of Pan Asia Banking Corporation PLC are listed in the Colombo Stock Exchange.

Instrument	Type	Security Code
Shares	Ordinary	PABC N0000
Debentures		
2012/2017 - 11.25% p.a.	Fixed Rate	PABC D0166
2012/2017 - 11.50% p.a.	Fixed Rate	PABC D0167
2012/2017 - 6 Month Gross T-Bill Rate + 2.95%	Floating Rate	PABC D0168
2012/2017 - 14.50% p.a.	Fixed Rate	PABC D0169
2014/2019 - 9.75% p.a.	Fixed Rate	PABC D0300
2014/2019 - 9.5233% p.a.	Fixed Rate	PABC D0301
2015/2018 - 9.50% p.a.	Fixed Rate	PABC D0353
2015/2018 - 6 Month Net T-Bill Rate + 2.50%	Floating Rate	PABC D0354
2015/2019 - 10.00% p.a.	Fixed Rate	PABC D0355
2015/2019 - 6 Month Net T-Bill Rate + 3.00%	Floating Rate	PABC D0356

The Audited Statement of Financial Position as at 31st December 2016 and Audited Statement of Comprehensive Income for the year ended 31st December 2016 of the Bank will be submitted to the Colombo Stock Exchange within 03 months from the Statement of Financial Position date.

2. Names, Number and Percentage of Shares held by Twenty Largest Shareholders

As at 31st December 2016

	Name of Shareholder	Number of Shares	Holding as a%
1.	K. D. D. Perera	88,482,820	29.99
2.	Bansei Securities Co., Ltd.	44,256,164	15.00
3.	Lanka Century Investments PLC	29,287,094	9.93
4.	D. C. C. Joseph	17,252,332	5.85
5.	K. D. H. Perera	15,537,332	5.27
6.	P. J. Tay	14,611,996	4.95
7.	K. D. A. Perera	12,800,000	4.34
8.	Sri Lanka Samurdhi Authority	11,114,376	3.77
9.	Seylan Bank PLC/W. D. N. H. Perera	8,213,641	2.78
10.	Sri Lanka Savings Bank Ltd	6,865,666	2.33
11.	N P Capital Ltd	6,860,603	2.33
12.	A. R. Molligoda	2,491,546	0.84
13.	Favourite Garments (Pvt) Ltd	1,850,000	0.63
14.	M. F. Hashim	1,772,202	0.60
15.	Deshabandu D.M.I. Dissanayake	1,306,801	0.44
16.	R. E. U. De Silva	1,288,639	0.44
17.	Bank of Ceylon A/C Ceybank Unit Trust	961,956	0.33
18.	H. Beruwalage	874,432	0.30
19.	R. S. A. Silva	756,237	0.26
20.	A. P. Somasiri	700,000	0.24
	Sub Total	267,283,837	90.62
	Balance held by 4,030 shareholders	27,757,249	9.38
	Total Number of Shares	295,041,086	100.00

As at 31st December 2015

	Name of Shareholder	Number of Shares	Holding as a%
1.	K. D. D. Perera	88,482,820	29.99
2.	Bansei Securities Co., Ltd.	44,256,164	15.00
3.	CHC Investment (Pvt) Ltd	29,073,325	9.85
4.	D. C. C. Joseph	17,282,029	5.86
5.	K. D. H. Perera	15,537,332	5.27
6.	P. J. Tay	14,611,996	4.95
7.	K. D. A. Perera	12,800,000	4.34
8.	Sri Lanka Samurdhi Authority	11,114,376	3.77
9.	Seylan Bank PLC / W. D. N. H. Perera	7,510,238	2.54
10.	Sri Lanka Savings Bank Ltd	6,865,666	2.33
11.	N P Capital Ltd	6,860,603	2.32
12.	A. R. Molligoda	2,491,546	0.84
13.	Favourite Garments (Pvt) Ltd	1,850,000	0.63
14.	M. F. Hashim	1,711,802	0.58
15.	Deshabandu D.M.I. Dissanayake	1,425,951	0.48
16.	R. E. U. De Silva	1,288,639	0.44
17.	Navara Capital Limited	1,060,000	0.36
18.	H. Beruwalage	874,432	0.30
19.	Alfred Edirisinghe (Pvt) Ltd	800,000	0.27
20.	A. P. Somasiri	700,000	0.24
Sub Total		266,596,919	90.36
Balance held by 4,043 Shareholders		28,444,167	9.64
Total Number of Shares		295,041,086	100.00

As per Rule No. 7.6(iv) of the Listing Rules of CSE, Percentage of Public holding as at 31st December 2016 was 54.49% in the hands of 4,037 public shareholders.(31st December 2015 – 51.94% in the hands of 4,048 shareholders)

3. Distribution Schedule of the Number of Shareholders and Percentage of Shareholding

The total number of shareholders as at 31st December 2016 were 4,050 (31st December 2015- 4,063).

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	867	33,049	0.01%	5	238	0.00%	872	33,287	0.01%
101 - 1,000	1,503	778,539	0.26%	7	4,400	0.00%	1510	782,939	0.26%
1,001 - 5,000	954	2,499,344	0.85%	9	27,000	0.01%	963	2,526,344	0.86%
5,001 - 10,000	255	2,042,989	0.69%	6	51,832	0.02%	261	2,094,821	0.71%
10,001 - 50,000	300	7,018,412	2.38%	7	165,200	0.06%	307	7,183,612	2.44%
50,001 - 100,000	67	4,920,877	1.67%	3	220,557	0.07%	70	5,141,434	1.74%
100,001 - 500,000	42	8,166,612	2.77%	4	1,287,800	0.44%	46	9,454,412	3.21%
500,001 - 1,000,000	5	3,833,025	1.30%	-	-	-	5	3,833,025	1.30%
1,000,001 & above	14	205,123,052	69.52%	2	58,868,160	19.95%	16	263,991,212	89.47%
	4,007	234,415,899	79.45%	43	60,625,187	20.55%	4,050	295,041,086	100.00%

Analysis 1.1

	2016			2015		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Resident Share Holders	4,007	234,415,899	79.45%	4,019	234,376,887	79.44%
Non Resident Share Holders	43	60,625,187	20.55%	44	60,664,199	20.56%
	4,050	295,041,086	100.00%	4,063	295,041,086	100.00%

Analysis 2

Range of Shareholding	Individual			Institutional			Total		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
1 - 100	862	32,747	0.01%	10	540	0.00%	872	33,287	0.01%
101 - 1,000	1,468	761,415	0.26%	42	21,524	0.01%	1510	782,939	0.27%
1,001 - 5,000	936	2,430,985	0.82%	27	95,359	0.03%	963	2,526,344	0.85%
5,001 - 10,000	235	1,881,371	0.64%	26	213,450	0.07%	261	2,094,821	0.71%
10,001 - 50,000	277	6,442,176	2.18%	30	741,436	0.25%	307	7,183,612	2.43%
50,001 - 100,000	53	3,770,759	1.28%	17	1,370,675	0.46%	70	5,141,434	1.74%
100,001 - 500,000	36	7,243,927	2.46%	10	2,210,485	0.75%	46	9,454,412	3.21%
500,001 - 1,000,000	4	2,871,069	0.97%	1	961,956	0.33%	5	3,833,025	1.30%
1,000,001 & above	9	155,543,668	52.72%	7	108,447,544	36.76%	16	263,991,212	89.48%
	3,880	180,978,117	61.34%	170	114,062,969	38.66%	4050	295,041,086	100.00%

Analysis 2.1

	2016			2015		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Individuals	3,880	180,978,117	61.34%	3,892	181,528,184	61.52%
Institutional	170	114,062,969	38.66%	171	113,512,902	38.48%
	4,050	295,041,086	100.00%	4,063	295,041,086	100.00%

4. Information on Ratios and Market Prices

4.1 Ordinary Shares

i) Ratios

Year	2016	2015
Dividend Per Share (Rs.)	-	0.50
Dividend Payout (%)	-	14.16
Net Asset Value Per Share (Rs.)	23.29	19.57

ii) Market Price

Year	2016 Rs.	2015 Rs.
Highest	27.70	29.50
Lowest	18.80	21.00
Year End	20.00	27.10

iii) Market Capitalisation

Market Capitalisation as at 31st December 2016 – Rs.5,900,821,720/- (31st December 2015 – Rs.7,995,613,430/-)

4.2 Debentures

i) Interest Rates, Market Prices and Credit Ratings

	Interest Rate (%)	Interest Rate of Comparable Govt. Security (%)	Market Price (Rs.)	Yield as at the Last Traded Date (%)	Yield to Maturity as at the Last Traded Date (%)	Credit Rating	
						2016	2015
Debenture - 2012/2017							
Fixed Rate - Interest Semi Annually	11.25	11.15	Not Traded	Not Traded	Not Traded	Fitch BB+(lka)	Fitch BBB-(lka)
Fixed Rate - Interest Annually	11.50	11.15	Not Traded	Not Traded	Not Traded	Fitch BB+(lka)	Fitch BBB-(lka)
Floating Rate - Interest Semi Annually (6 Months Gross T-Bill Rate + 2.95%)	13.87	9.48	Not Traded	Not Traded	Not Traded	Fitch BB+(lka)	Fitch BBB-(lka)
Fixed Rate - Interest at Maturity	14.50	11.15	1,005	14.43	11.41	Fitch BB+(lka)	Fitch BBB-(lka)
Debenture - 2014/2019							
Fixed Rate - Interest Annually	9.75	13.03	Not Traded	Not Traded	Not Traded	ICRA (SL) BBB-	ICRA (SL) BBB-
Fixed Rate - Interest Semi Annually	9.5233	13.03	Not Traded	Not Traded	Not Traded	ICRA (SL) BBB-	ICRA (SL) BBB-
Debentures - 2015/2018							
Fixed Rate - Interest Semi Annually	9.50	12.60	Not Traded	Not Traded	Not Traded	Fitch BBB-(lka)	Fitch BBB(lka)
Floating Rate - Interest Semi Annually (6 Months Net T-Bill Rate + 2.50%)	12.125	9.66	Not Traded	Not Traded	Not Traded	Fitch BBB-(lka)	Fitch BBB(lka)
Debentures - 2015/2019							
Fixed Rate - Interest Semi Annually	10.00	13.01	Not Traded	Not Traded	Not Traded	Fitch BBB-(lka)	Fitch BBB(lka)
Floating Rate - Interest Semi Annually (6 Months Net T-Bill Rate + 3.00%)	12.625	9.66	Not Traded	Not Traded	Not Traded	Fitch BBB-(lka)	Fitch BBB(lka)

ii) Ratios

Year	2016	2015
Debt to Equity (Times)	1.97	1.87
Interest Cover (Times)	2.90	3.73
Statutory Liquid Assets Ratio		
Domestic Banking Unit (%)	28.03	24.39
Foreign Currency Banking Unit (%)	38.82	50.63

5. Information pertaining to the material foreseeable risk factors that require disclosures as per the Rule 7.6(vi) of the Listing Rules of the CSE are discussed in the Future Outlook in pages 51 to 52 and Risk Management Report on pages 74 to 80.

6. 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 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 Transactions

All related party transactions entered by the Bank have been reviewed by the Board Related Party Transaction Review Committee during the year 2016. 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.

A**Acceptance**

Promise to pay created when the drawee of a time draft stamps or writes the words 'accepted' above his signature and a designated payment date.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalents.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost

Amount at which the Financial Asset or Financial Liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

Asset and Liability Committee (ALCO)

A risk-management committee in a Bank that generally comprises the senior-management levels of the Bank. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, and external events that may affect the Bank's forecast and strategic balance-sheet allocations.

Available-for-Sale Financial Assets

Available for Sale Financial Assets are those non derivative Financial Assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at Fair Value through Profit or Loss.

B**Bills for Collection**

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

Bill of Exchange

A signed, written, unconditional order one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of the third person (the Payee). The terms bills of exchange and drafts are often used interchangeably.

C**Call Deposits or Call Money**

Deposits or funds lent out which are repayable on demand.

Capital Adequacy Ratio

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capital Reserve

Reserves identified for specific purposes and considered not available for distribution.

Cash Equivalents

Short Term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date.

Commercial Paper

An unsecured, short-term debt instrument issued by a company, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commitments

Credit Facilities approved but not yet utilised by the clients at the end of the Reporting Period.

Contingencies

A condition or situation existing at the end of the Reporting Period where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contractual Maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A Bank in a foreign country that offers banking facilities to the customers of a Bank in another country.

Cost to Income Ratio

A ratio expressing Bank's cost effectiveness which sets overhead expenses in relation to operating income.

Credit Ratings

An evaluation of a corporate ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Currency Swaps

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Country Risk

The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

D**Deferred Tax**

Sum set aside in the Financial Statements for taxation that may become payable in a financial year other than the Current financial year.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition

Removal of a previously recognised financial assets or financial liability from an entity's Statement of Financial Position.

Derivatives

Financial contracts whose values are derived from the values of underline assets.

Documentary Letters of Credit (L/Cs)

Written undertakings by a Bank on behalf of its customers (typically an importer), favouring a third party (e.g. an exporter) where the third party could get paid up to a stipulated amount by fulfilling specific terms and conditions. Such undertakings are established for the purpose of facilitating trade.

E**Earnings per Share**

Profit attributable to ordinary shareholders' divided by number of shares in issue during that period.

Effective Interest Rate

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the Financial Asset or Financial Liability.

Effective Tax Rate

Provision for taxation excluding deferred tax and prior year adjustments divided by the profit before taxation.

Equity Instruments

Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Events after the Reporting Period

Events after the Reporting Period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Exposure

A claim, contingent claim or position which carries a risk of financial loss.

F**Fair Value**

Fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Asset or Financial Liability at Fair Value through Profit or Loss

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

Financial Guarantee Contract

A Financial Guarantee Contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial Investments Available for Sale

Available for sale financial assets are those non derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity or financial assets at fair value through profit or loss.

Financial Investments Held to Maturity

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Financial Instruments

Any contract that gives rise to a financial assets of one entity and financial liability or equity instrument of another entity.

Financial Liability

A contractual obligation to deliver cash or another financial asset to another entity.

Foreign Exchange Profit

Foreign Exchange Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transactions/last Balance Sheet date and the settlement/ Balance Sheet date. Also arises from trading in foreign currencies.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

General Provisions

General Provisions are established for all Loans and Advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Guarantees

Primarily represent irrevocable assurances that a Bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

H

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements.

Historical Cost Convention

Recording transactions at the actual value received or paid.

I

Individually Impaired Loans and Advances

Loans and Advances those are individually significant to the Bank and Impairment of which are measured individual/ specific basis.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Individual Impairment Provisions

Individual impairment provisions are provisions held in account of Individually Significant Loans and Advances.

Impaired Asset Cover

Impaired Assets Cover is the ratio of total impairment provision to total impaired assets.

Intangible Asset

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/ services or for rental to others or for administrative purposes.

Interest in Suspense

Interest due on Non Performing assets.

Interest Margin

Net interest income as a percentage of average total assets.

Interest Rate Risk

The risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

Interest Spread

Represents the difference between the average interest rate earned on interest earning assets and the average interest rate incurred on interest bearing liabilities.

Interest Earning Assets

Includes loans and receivables, placements with Banks, Held to Maturity Financial Investments and interest bearing Held for Trading Financial Assets.

Investment Properties

Investment property is property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for use or sale.

K**Key Management Personnel**

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L**Liquid Assets**

Assets that are held in cash or in a form that can be converted to cash readily.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with Financial Liabilities.

Loans and Receivables

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

M**Market Capitalisation**

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N**Net Accommodation**

Total net accommodation computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of five years or more.

Net Assets Value per Share

Shareholders' funds divided by the number of ordinary shares in issue.

Net Interest Income

The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds, subordinated term borrowings & inter-bank borrowings etc.

Non - Performing Advances Ratio (Gross)

Total Non - Performing Advances net of Interest in Suspense divided by total advances portfolio net of Interest in Suspense.

Non - Performing Advance Ratio (Net)

Total Non - Performing Advance net of Interest in Suspense and Loan Loss Provision divided by total advance portfolio net of Interest in Suspense.

Nostro Account

A foreign currency current account maintained with another Bank, usually but not necessarily a foreign correspondent Bank.

O**Off-Balance Sheet Transactions**

Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Open Credit Exposure Ratio

Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

P**Past Due**

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Provision for Loan Losses

A charge to income added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets to estimated realisable values.

Projected Unit Credit Method

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Probability of Default (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Prudence

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R**Ratio of Impaired Loans and Receivables**

Ratio for Impaired Loans and Receivables is the ratio of gross impaired asset portfolio as a percentage of gross Loans and Receivables.

Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specific date and price.

Return on Average Assets

Profit after tax divided by the average assets.

Return on Average Equity (ROE)

Net income expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserve

Reserves set aside for future distribution and investment.

Reverse Repurchase Agreement

Transaction involving the purchase of the securities by a bank or dealer and resale back to the seller at a future date and specified price.

Risk Weighted Assets

On-Balance Sheet assets and the credit equivalent of Off- Balance Sheet facilities multiplied by the relevant risk weighting factors.

S**Segment Reporting**

Segment reporting indicates the contribution to the revenue derived from business segments such as retail banking, corporate banking and treasury.

Shareholders' Funds

Total of issued and fully paid share capital and revenue reserves.

Statutory Reserve Fund

A reserve created as per the provisions of the Banking Act No. 30 of 1988.

T**Tier I Capital**

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debt.

Total Capital (Capital Base)

Total Capital is the sum of Tier I and Tier II capital.

Transaction Costs

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

U**Undrawn Credit Lines**

Credit facilities approved but not yet utilised by the clients as at the end of the reporting period.

Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

Unsecured

Repayment of the principal and interest not being secured by any specific asset.

V**Value Added**

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y**Yield to Maturity**

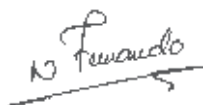
Discount rate at which the present value of future payments would equal the security's current price.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the TWENTY SECOND ANNUAL GENERAL MEETING of PAN ASIA BANKING CORPORATION PLC will be held at The Kingsbury - (Location - The Winchester, Basement Level), No.48, Janadhipathi Mawatha, Colombo 01 on 31st March 2017 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 2016 with the Report of the Auditors thereon.
2. To re-elect, Mohan Abeynaike, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.
3. To re-elect, Sarath Rangamuwa, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.
4. To re-elect, Nihal Kekulawala, in terms of Article 89 of the Articles of Association as a Director.
5. To re-elect Harris Premaratne, in terms of Article 89 of the Articles of Association as a Director.
6. To authorise the Directors to determine donations for the year 2017.
7. To re-appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.

By Order of the Board



Nayantha Fernando
Company Secretary

22nd February 2017

Notes :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead.
2. A proxy need not be a member of the Company. The form of proxy is enclosed herewith.
3. The completed form of proxy must be deposited with the Company Secretary at the Registered Office of the Company, No. 450, Galle Road, Colombo 3 not later than 48 hours prior to the time appointed for the holding of the meeting.
4. Shareholders/proxies attending the meeting are requested to bring their National Identity Cards.

This image shows a full page of blank, lined paper. It features approximately 20 horizontal blue or grey lines spaced evenly apart, typical of notebook paper. The lines extend across the entire width of the page, leaving small margins at the top and bottom. There are no vertical lines, text, or other markings on the page.

I/We

(NIC No/s.....) of.....

.....being

a shareholder/being shareholders of Pan Asia Banking Corporation PLC, hereby appoint

- | | |
|---------------------------------|---------------------------|
| 1. Eshana De Silva | of Colombo or failing him |
| Harris Premaratne | of Colombo or failing him |
| Mohan Abeynaïke | of Colombo or failing him |
| Tharana Thoradeniya | of Colombo or failing him |
| Dimuth Prasanna | of Colombo or failing him |
| Takashi Igarashi | of Colombo or failing him |
| Toyohiko Murakami | of Colombo or failing him |
| Sarath Rangamuwa | of Colombo or failing him |
| Amarasinghe Arachchige Wijepala | of Colombo or failing him |
| Jayaraja Chandrasekera | of Colombo or failing him |
| Nihal Kekulawala | of Colombo |

2.

(NIC No.....) of

as my/our* proxy to vote on my/our* behalf at the Twenty Second Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 31st March 2017 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 2016 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. Resolution No. 2 To re-elect Mohan Abeynaïke, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
3. Resolution No. 3 To re-elect Sarath Rangamuwa, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>

	For	Against
4. Resolution No. 4 To re-elect Nihal Kekulawala, in terms of Article 89 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. Resolution No. 5 To re-elect Harris Premaratne, in terms of Article 89 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6. Resolution No. 6 To authorise the Directors to determine the donations for the year 2017.	<input type="checkbox"/>	<input type="checkbox"/>
7. Resolution No. 7 To re-appoint the Auditors of the Bank, M/s Ernst &Young and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

As witness I/we* have set my/our* hand/s* hereunto thisday ofTwo Thousand and Seventeen.

.....
Signature of Shareholder.

Note : Instructions as to completion of the Form of Proxy.

- To be valid, this form of proxy must be deposited with the Company Secretary at the Registered Office situated at No.450, Galle Road, Colombo 3, before 9.30 a.m. on the 29th March 2017 being 48 hours before the time appointed for holding the meeting.
- In perfecting the form of proxy please ensure that all details are legible.
- The proxy appointed need not be a shareholder of Pan Asia Banking Corporation PLC.
- If the shareholder is a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.
- A shareholder appointing a proxy (other than a Director of the Bank) to attend the meeting should indicate the proxy holder's National Identity Card (NIC) number on the Form of Proxy and request the proxy holder to bring his/her * National Identity Card with him/her*.
- Please indicate with 'x' in the space provided how your proxy is to vote on each resolution.

* Delete whichever is inapplicable.

Corporate Information

Registered Name of the Company

Pan Asia Banking Corporation PLC

Legal Form

A Public Limited Liability Company incorporated in Sri Lanka on 06th March 1995 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007.

A Licensed Commercial Bank under the Banking Act No. 30 of 1988 and listed in the Colombo Stock Exchange.

Company Registration Number

PQ 48

Registered Office/Head Office

No. 450, Galle Road,
Colombo 03.
Sri Lanka.
Telephone : +94112565565
+94114667777
Fax : +94112565558

Call Center (24/7 Customer Service Hotline)

Telephone : +94114667222
Fax : +94112575023
SWIFT Code : PABSLKLX
E-mail : customerservice@pabcbank.com
Web Site : www.pabcbank.com

Tax Payer Identification Number (TIN)

134005700

Accounting Year End

31st December

Stock Exchange Listing

- i) 295,041,086 Ordinary Shares
- ii) 2012/2017 Debentures -750,000 Rated, Unsecured, Subordinated, Redeemable Debentures of Rs.1,000/- each.
- iii) 2014/2019 Debentures -30,000,000 Rated, Unsecured, Subordinated, Redeemable Debentures of Rs.100/- each.
- iv) 2015/2018 and 2015/2019 Debentures - 40,000,000 Rated, Unsecured, Senior, Redeemable Debentures of Rs.100/- each.

Board of Directors

Eshana De Silva	-	Chairman
Harris Premaratne	-	Deputy Chairman
Mohan Abeynaïke	-	Senior Director
Tharana Thoradeniya	-	Director
Dimuth Prasanna	-	Director
Takashi Igarashi	-	Director
Toyohiko Murakami	-	Director
Sarath Rangamuwa	-	Director
A. A. Wijepala	-	Director
Jayaraja Chandrasekera	-	Director
Nihal Kekulawala	-	Director

Company Secretary

Nayantha Fernando

Board Audit Committee

Mohan Abeynaïke	-	Chairman
Toyohiko Murakami	-	Director
A. A. Wijepala	-	Director
Nihal Kekulawala	-	Director

Board Credit Committee

Eshana De Silva	-	Chairman
Tharana Thoradeniya	-	Director
Sarath Rangamuwa	-	Director
Jayaraja Chandrasekera	-	Director
Dimuth Prasanna	-	Director
Harris Premaratne	-	Director

Board Integrated Risk Management Committee

Nihal Kekulawala	-	Chairman
Dimuth Prasanna	-	Director
Takashi Igarashi	-	Director

Board Human Resources & Remuneration Committee

Tharana Thoradeniya	-	Chairman
Mohan Abeynaïke	-	Director
Dimuth Prasanna	-	Director
Nihal Kekulawala	-	Director
Harris Premaratne	-	Director

Board Nomination Committee

Eshana De Silva	-	Chairman
Mohan Abeynaïke	-	Director
Nihal Kekulawala	-	Director

Board Strategic Planning Committee

Mohan Abeynaïke	-	Chairman
Tharana Thoradeniya	-	Director
A. A. Wijepala	-	Director
Nihal Kekulawala	-	Director

Board Related Party Transaction Review Committee

Eshana De Silva	-	Chairman
Mohan Abeynaïke	-	Director
A. A. Wijepala	-	Director

Auditors

Ernst & Young
Chartered Accountants
No. 201, De Saram Place,
P. O Box 101,
Colombo 10,
Sri Lanka.

Credit Rating

National Long-Term Rating

Fitch Rating 'BBB-(lka)' Stable Outlook [2015 - BBB(lka)]
ICRA Lanka Rating - '[SL] BBB (Stable)'

Instrument Rating

Subordinated Debentures 2012/2017 : Fitch Rating : 'BB+(lka)'
Subordinated Debentures 2014/2019 : ICRA Lanka Rating - '[SL] BBB- (Stable)'
Senior Debentures 2015/2018 : Fitch Ratings : 'BBB-(lka)'
Senior Debentures 2015/2019 : Fitch Ratings : 'BBB-(lka)'

Pan Asia Banking Corporation PLC

450, Galle Road,
Colombo 03,
Sri Lanka.

Web

www.pabcbank.com

Call

+94 11 4 667 222

Fax

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