Annual Report 2019

Sheer grit

PAN ASIA BANK
The Truly Sri Lankan Bank

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Sheer grit

Pan Asia Bank is one of the fastest-growing commercial banks in Sri Lanka. Over the years, we have kept our focus on growth and profitability and today, we are proud to see that our performance rivals that of many of the bigger banks in Sri Lanka.

We have nurtured the qualities of innovation, resilience and flexibility into our DNA and these corporate traits have served us well in the uncertain business environment we operate in today. The year under review was certainly a complex one and the reader will see that we have been persevering, resourceful and strategic in delivering the good performance recorded in this report.

Now, as we continue to honour our pledge to create consistent stakeholder value, we know we have the skills, the resources, the corporate stability and sheer grit we need to overcome our challenges and grow.

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DETERMINED TO ACHIEVE

"Persistence can change failure into extraordinary achievement."

- *Marv Levy*

OVERVIEW

OVERVIEW

About Pan Asia Bank

2019 financial year posed serious systemic challenges to the wider banking industry and proved to be a testing year for Pan Asia Bank as well. The manner in which the Bank responded to those challenges and emerged triumphant to post its highest-ever financial performance reflects the robust fundamentals embedded in our DNA. The year was one of reckoning for Pan Asia Bank as it was able to withstand enormous pressure to deliver significant returns to investors and customers. Exercising the highest caution, coupled with highly-effective risk and governance frameworks, the Bank was able to field every challenge with elan while leveraging on its robust system and processes.

Another pillar of our performance is the professional and highly-caring team of employees at Pan Asia Bank, whose superhuman effort and ability to think innovatively helped drive the Bank's prosperity. In return, Pan Asia Bank provides an empowering work culture and an atmosphere of continuous learning. The internal and external relationships built over its 24 years of its operations continue to endure and weather any and every hardship along the way.

Pan Asia Bank has truly found its groove - as a Bank that supports and uplifts the SME sector, widely considered to be the backbone of Sri Lanka's economy. Our sustainable finance has won us the 'Global Climate Partnership Award' from the Global Climate Partnership Fund (GCPF). This recognition has boosted our confidence and expanded our reach to support worthy sustainable projects that will transform livelihoods and enable small businesses to thrive.

Strengthening its recognition as a Truly Sri Lankan Bank, Pan Asia Bank continue to deliver a range of beneficial community projects that benefit the community and the environment and extend a sense of togetherness and hope. Growing from strength to strength with each passing year, Pan Asia Bank is ideally poised to be the most progressive bank powered by sheer grit.

OUR VISION

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

OUR MISSION

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

OUR VALUES

Act with Courage and Integrity

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

Dependability

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

Team Work

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

Strive for Excellence

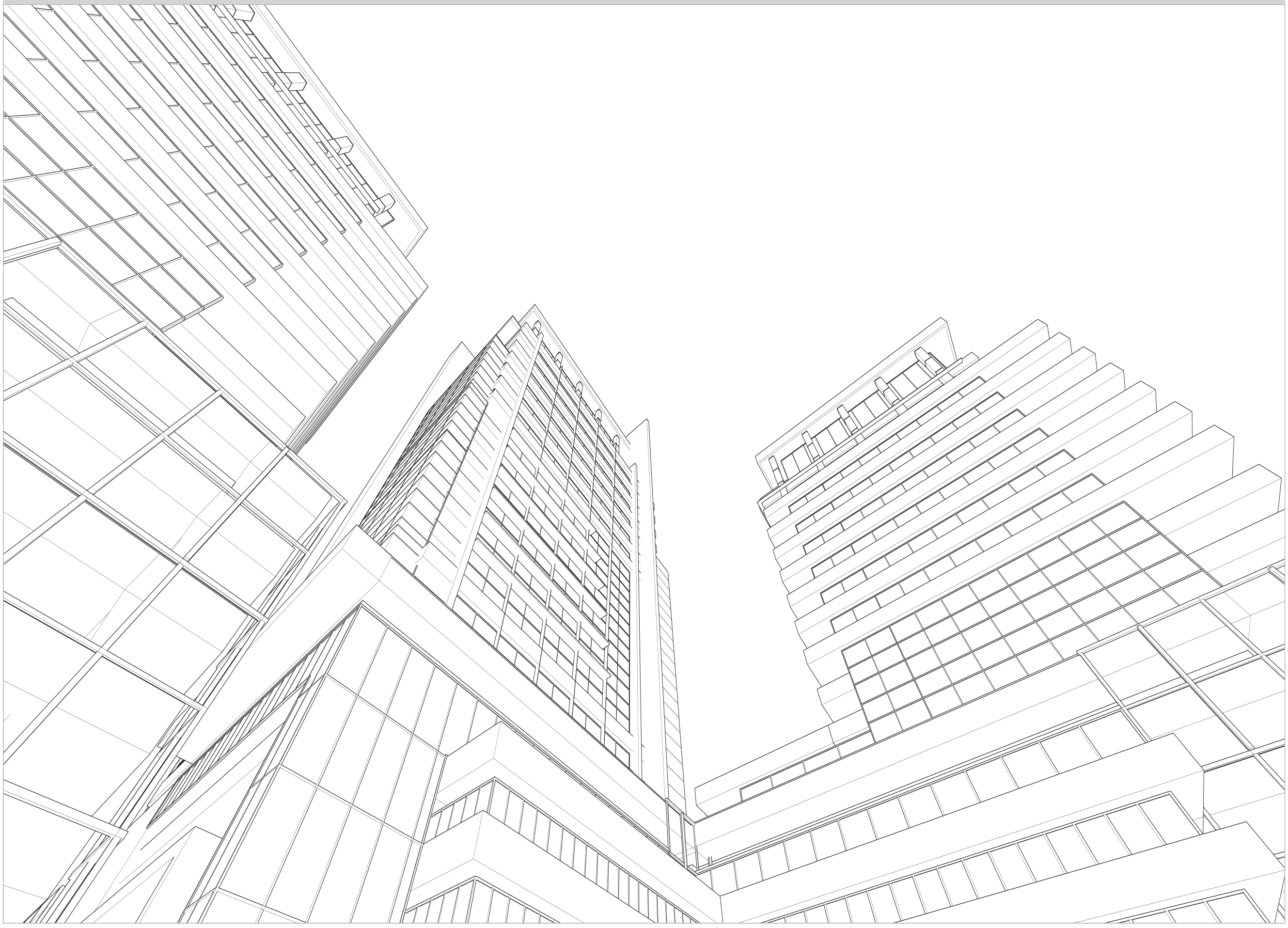
We will put forth our best to provide the highest quality of Banking services by understanding customer needs and exceeding expectations.

Commitment

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

Mutual Trust and Respect

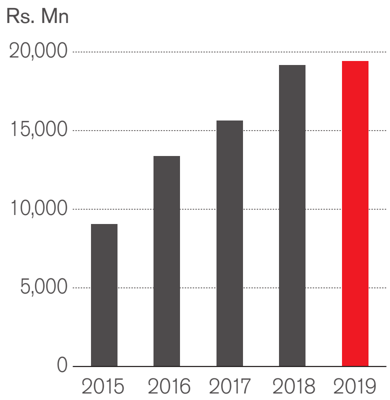
We connect to customers, communities, regulators and each other with respect, dignity and with mutual trust.



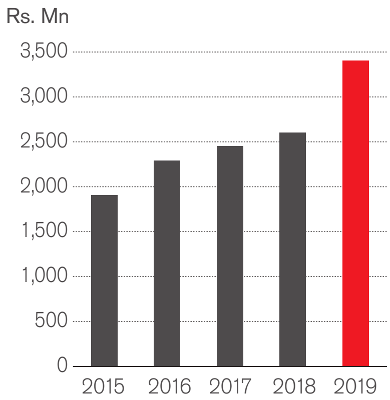
Financial Highlights

	2019	2018	Change %
Results for the Year (Rs. Mn)			
Gross Income	21,907.66	21,672.19	1.09
Net Interest Income	6,634.59	6,518.29	1.78
Total Operating Income	9,065.09	8,926.62	1.55
Operating Profit Before Taxes and Levies on Financial Services	3,402.68	2,600.66	30.84
Profit Before Tax	2,314.14	1,909.66	21.18
Profit for the Year	1,750.57	1,541.64	13.55
Total Comprehensive Income for the Year	2,082.14	1,560.03	33.47
Position at the Year End (Rs. Mn)			
Loans and Advances -Gross	117,503.18	113,494.42	3.53
Total Assets	152,979.70	154,026.28	(0.68)
Due to Depositors	122,544.02	118,627.35	3.30
Shareholders' Funds	13,328.79	11,246.64	18.51
Financial Ratios (%)			
Net Interest Margin	4.36	4.37	(0.23)
Return on Equity	14.50	13.73	5.61
Return on Assets	1.15	1.03	11.65
Cost to Income Ratio	50.26	48.88	2.82
Investor Ratios			
Earnings per Share (Rs.)	3.96	3.48	13.79
Net Assets Value per Share (Rs.)	30.12	25.41	18.54
Market Price per Share (Rs.)	12.80	14.80	(13.51)
Earnings Yield (%)	30.94	23.51	31.60
Price Earnings Ratio (Times)	3.23	4.25	(24.00)
Price to Book Value (Times)	0.42	0.58	(27.59)
Statutory Ratios			
Capital Adequacy Ratio			
Common Equity Tier I Capital Ratio (%) (Minimum Requirement - 7%)	12.87	11.51	11.82
Total Tier I Capital Ratio (%) (Minimum Requirement - 8.5%)	12.87	11.51	11.82
Total Capital Ratio (%) (Minimum Requirement - 12.5%)	14.31	13.32	7.43
Leverage Ratio (%) (Minimum Requirement - 3%)	7.06	N/A	N/A
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)			
Domestic Banking Unit (%)	24.93	29.17	(14.54)
Foreign Currency Banking Unit (%)	23.61	20.09	17.52
Liquidity Coverage Ratio (Minimum Requirement -100%)			
Rupee (%)	128.84	166.08	(22.42)
All Currency (%)	165.02	136.52	20.88
Net Stable Funding Ratio (%) (Minimum Requirement - 100%)	128.24	N/A	N/A
Assets Quality Ratios			
Non Performing Loans Ratio (%)			
Gross	6.31	5.44	15.99
Net	2.82	3.08	(8.44)

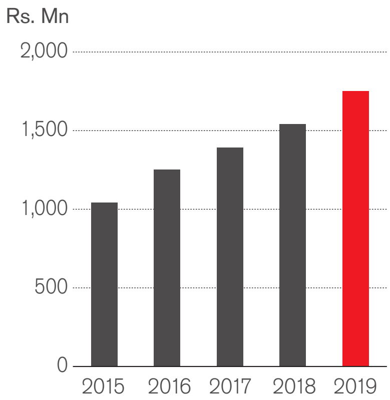
INTEREST INCOME



OPERATING PROFIT



PROFIT FOR THE YEAR



GROSS INCOME

Rs.21,907.66Mn

TOTAL OPERATING INCOME

Rs.9,065.09Mn

INVESTOR RELATIONS

Rs.3.96
Earnings per Share

14.50%
Return on Equity

Rs.30.12
Net Assets Value per Share

30.94%
Earnings Yield

EMPLOYEE RELATIONS

1,629
Staff Strength

285
Internal Promotions

57,217
Training Hours

Rs.25.72Mn
Investment for Human Capital Development

CUSTOMER TOUCH POINTS

85
Branches

88
ATMs & CDMs

CORRESPONDENT BANKS

200+ Correspondent Banking Relationships around the World

CUSTOMER DEPOSITS AND ADVANCES

Rs.122.54Bn
Customer Deposits

Rs.117.50Bn
Loans & Advances

TAXES PAID TO GOVERNMENT

Rs.2.31Bn

TOTAL ASSETS

Rs.152.98Bn

OVERVIEW

Accomplishments of the Year

1 FIRST SRI LANKAN BANK TO BE RECOGNISED WITH THE 'GLOBAL CLIMATE PARTNERSHIP AWARD'

Pan Asia Bank was rewarded with the prestigious 'Global Climate Partnership Award' by the Global Climate Partnership Fund (GCPF), one of the world's largest climate funds which recognises outstanding performance and impact across categories such as capacities and skills, institutional capacities and green lending offerings, as well as outstanding energy efficiency or renewable energy projects. The Bank's officials accepted the accolade at the award ceremony held in Tbilisi, Georgia on 13th June 2019.

2 PAN ASIA BANK WAS RECOGNISED AT THE PRESIDENTIAL ENVIRONMENT AWARDS 2019

Pan Asia Bank took centre-stage at the high-profile 'Presidential Environment Awards 2019', held on 29th October 2019, at the Nelum Pokuna Mahinda Rajapaksa Theatre, on which occasion, the former President of Sri Lanka, His Excellency Maithripala Sirisena, recognised the bank for winning the prestigious Global Climate Partnership Award in June 2019 for the Bank's green lending efforts.

3 PAN ASIA BANK FEATURED AMONG TOP 30 BUSINESS ENTITIES IN SRI LANKA

'The Business Today' included Pan Asia Banking Corporation PLC among the 'Top 30 Corporates in Sri Lanka' for the first time in its history in recognition of the Bank's business and financial resilience in challenging times. The Business Today Top 30, for 2018-2019 is an independent ranking of the country's listed entities based on a comprehensive evaluation of an entity's financial and non-financial performance for the financial years ended in December 2018 and 31st March 2019 conducted with the assistance of KPMG Sri Lanka.

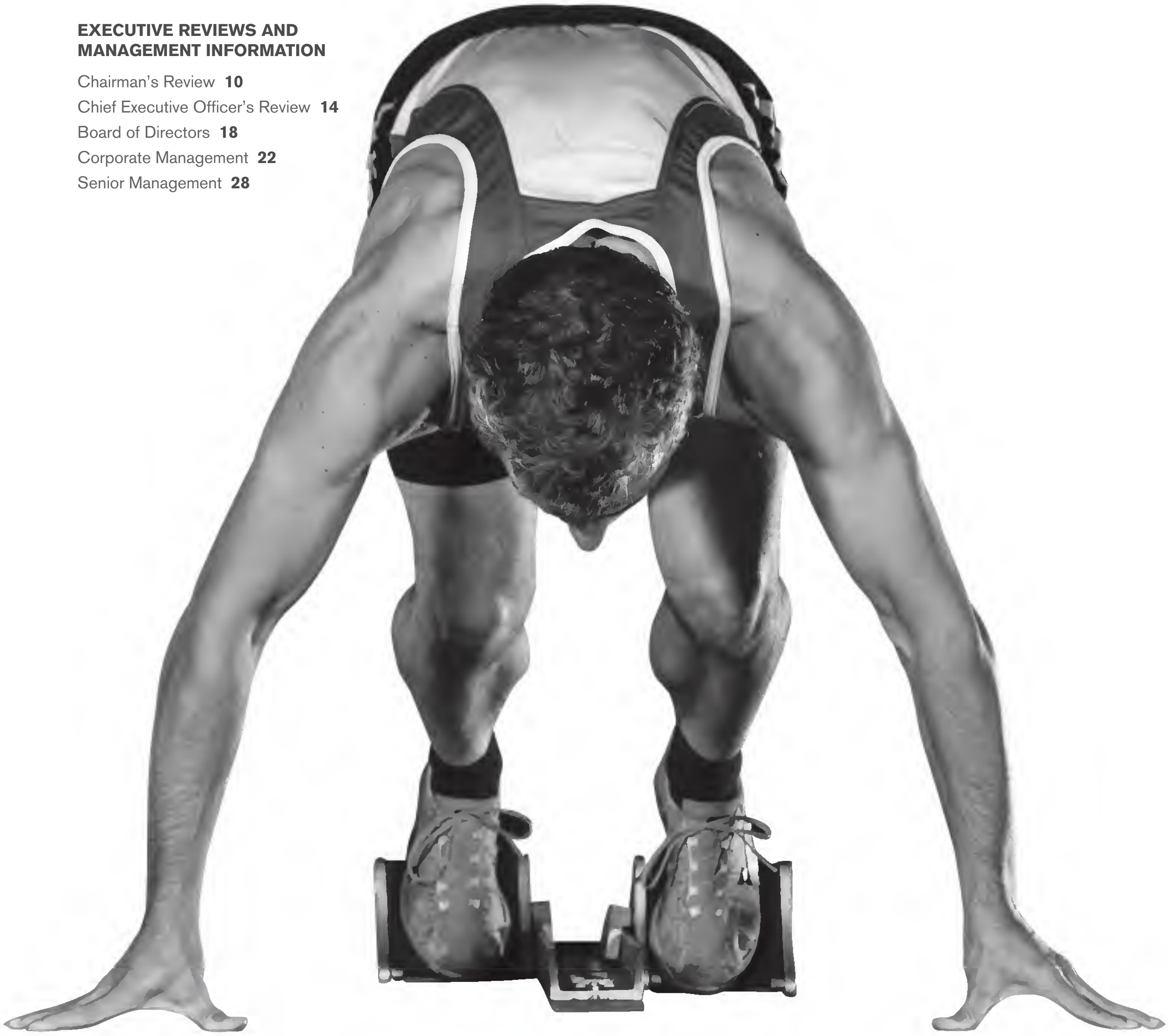
4 ACQUIRED LATEST ISO 27001 CERTIFICATION FOR INFORMATION TECHNOLOGY

Pan Asia Bank was awarded the ISO 27001:2013 certification recently by Bureau Veritas, for adopting and implementing global standards and best practices to ensure effectiveness, efficiency, confidentiality and integrity of its day-to-day IT operations. The ISO 27001: 2013 certification is the highest international benchmark for information security management, and the world's highest accreditation for information protection and security. This certification highlights the Bank's efforts to comply with local and international regulations regarding data protection, privacy and IT governance.

SET TO ACHIEVE

"Without continual growth and progress, such words as improvement, achievement, and success have no meaning." - *Benjamin Franklin*

EXECUTIVE REVIEWS AND MANAGEMENT INFORMATION



Chairman's Review

Dimuth Prasanna
Chairman

UNWAVERING BOARD OVERSIGHT, CLEAR PRIORITIES AND HARD WORK PROVED TO BE A WINNING FORMULA

Dear Shareholders,

I take pride in welcoming you to the 25th Annual General Meeting of Pan Asia Banking Corporation PLC and to place before you the Audited Financial Statements and Annual Report for the financial year ended 31st December 2019. 'Adversity is the fuel of greatness' it is said - and this is precisely what 'Team Pan Asia Bank' demonstrated by delivering a balanced performance through courage of its conviction and sheer grit. As the predominant driving force for the entire team through the year under review, 'Sheer grit' was the inevitable choice as the key defining theme for this Annual Report.

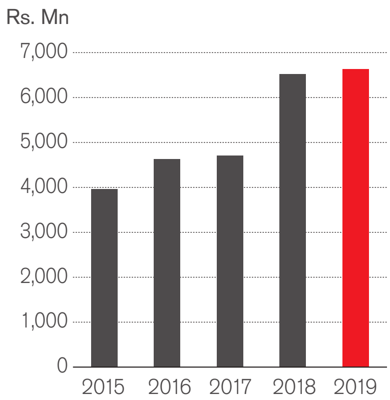
Challenging Environment

The repercussions of weak macro-economic growth and the Easter Sunday attacks combined to put the brakes on economic activity which caused Non-Performing Loans (NPLs) to rise steeply in the banking and financial services industry. Pan Asia Bank took adequate steps to introduce the Board oversight for recoveries to reduce exposure on doubtful loans which served to keep the growth in our NPLs at a reasonable level in comparison to the rest of the industry which witnessed an alarming growth in NPLs. Supported by the improved underwriting standards and other concerted efforts on maintaining the quality credit portfolio, the Bank's concentration on 'stage 1 credit exposures', which is the key sign of the quality of the Bank's credit book, improved to 80% level by end of 2019.

During the year under review, the Bank remained focused on improved the performance of retail banking segment and kept its attention focused on improving critical parameters such as Current and Savings Account (CASA) base and other sources of low cost funding.

WE HAVE THE CAPABILITIES TO OFFER BETTER FINANCIAL SOLUTIONS TO CUSTOMERS FOR A BETTER TOMORROW AND AIM TO HELP EACH INDIVIDUAL, EACH BUSINESS AND EACH INVESTOR. FINALLY, WE WILL ENSURE RESPONSIBLE GROWTH BY EMPOWERING COMMUNITIES, ENCOURAGING CUSTOMERS AND SUPPORTING OUR EMPLOYEES TO ACHIEVE EXCELLENCE.

NET INTEREST INCOME



During the year, Pan Asia Bank adopted a razor-sharp vision to focus on products in our portfolio such as 'Sammana' State pension loan product and 'Swabhimana', special consumer loan product for State sector employees which were not unduly affected by the difficult operating conditions. As a result, the Bank posted an Operating Profit before all Taxes of over Rs. 3.40 billion notwithstanding the interest rate ceilings introduced by the regulator midway in the year under review. Nevertheless, the Bank grew faster than the industry average, strongly supported by unique diversified business model, advanced systems and processes and a workforce which is amongst the most skilled and professional in the banking sector.

Poised for Growth

Over the past several years, the Bank has been undergoing a transformation by ensuring all our resources, people, systems and processes are agile and scalable. The new delinquency management system integrating all loan products will be in place enabling quicker response to customers while allowing for faster decision making and the ability to get a 360-degree view of the business with a few clicks. Repeatedly acknowledged as 'the Sri Lanka's Fastest-Growing Bank', Pan Asia Bank is now lean, agile and modern and even though our ambitious targets for year 2019 were not completely fulfilled, we are proud of what we have achieved against the mammoth challenges that weighed down the industry and the wider economy during the year under consideration.

We believe our rock-steady performance amidst challenging industry conditions was achieved on account of our product innovation that fills a specific void in the market. Over the years, Pan Asia Bank has repeatedly demonstrated its customer-centric focus by pioneering products in Sri Lanka's banking industry such as Sammana, the special loan for pensioners. This product was launched six years ago and enables a pensioner to divert his/her pension to Pan Asia Bank and obtain a loan without the need for guarantors. Considering the productive age at which people retire and have to provide for themselves and their families for another 20-plus years coupled with inflation and the rising cost of living, having access

Chairman's Review

to the Sammana loan accords them a life of dignity. Sammana fulfilled the aspirations of pensioners who would like to maintain the lifestyle they were used to before retiring. At the time Sammana was launched, there was no equivalent product in the banking industry, which reflects Pan Asia Bank's ability to tap into new segments.

Keeping true to our spirit as a caring Bank, Pan Asia next conceptualised 'Swabhimana' personal loan for State sector employees of the Ceylon Electricity Board, Sri Lanka Ports Authority and Sri Lanka Telecom against their salaries with flexibility in choosing the repayment period of up to 12 years. These two products have grown by leaps and bounds since they were launched. As an innovative Bank, we will continue to seek growth in untapped segments and seize opportunities as they present themselves and create new avenues for growth as needed. Our product design and delivery is well supported by a strong product responsibility framework.

During 2019, the 'Together we Rise' theme which was cascaded to all branches delivered exceptional results, motivating teams to work stronger together and get more done to achieve set targets. Apart from delivering results, it proved to be an effective mechanism for motivating employees, promoting cooperation and inculcating a sense of pride and ownership in working for Pan Asia Bank.

PROFIT AFTER TAX

Rs.1.75 Bn

13.55% ↑

THE BANK GREW FASTER THAN THE INDUSTRY AVERAGE, STRONGLY SUPPORTED BY UNIQUE DIVERSIFIED BUSINESS MODEL, ADVANCED SYSTEMS AND PROCESSES AND A WORKFORCE WHICH IS AMONGST THE MOST SKILLED AND PROFESSIONAL IN THE BANKING SECTOR.

The Bank's risk and governance standards not only fulfill compliance standards as set out by the regulator but also respond to our unique in-house needs, which is why the system has been internally designed. These systems have helped reduce any major risks to the Bank's profitability. I must commend my colleagues on the Board for their exceptional contribution in running a tight ship to weather through the storms that beset the banking industry in 2019.

Future Outlook

Looking ahead, we expect to carve out a greater share of the market in the secured lending category by leveraging on our unique product portfolio. While we remain committed to growing shareholder wealth and enhancing profitability of the Bank, our overarching goal to consolidate our vision as a sustainable entity remains strong as ever. Green financing will form the core of our future strategy, a decision further reinforced by having been awarded the prestigious Global Climate Partnership Award for our extensive green lending efforts in 2019, the first bank in Sri Lanka to receive this accolade.

The SME industry is the backbone of Sri Lanka's economy and it has been badly hit by the events of 2019. We hope to be at the forefront of the revival of the SME sector in 2020 by extending financing to sustainable projects to uphold and encourage the spirit of entrepreneurship.

The banking industry globally is moving towards sustainable or green financing and Pan Asia Bank is pleased to be a pioneer in this area once again. We are committed to supporting and funding sustainability projects that uplift livelihoods and whole communities to the next stage of growth. More importantly our engagement with customers goes providing loans to giving technical assistance and educating them on business and financial management to safeguard their finances and businesses.

Pan Asia Bank's commitment to responsible growth remains resolute as does customer confidence in and financial stability of the Bank. We have many good things going for us and we aim to consolidate and leverage on our strengths further in the new financial year.

We view the future with optimism as greater political stability should lead to more long-term economic policies that stimulate the economy and support the banking and financial services sector to lend to businesses for reinvestment and expansion. With the tourism sector reviving to pre-Easter Sunday levels, we are hopeful that it signals a return to Sri Lanka being viewed as an attractive destination once again.

Coming out of such a difficult year, our customers will expect more from us as their banking partner. We have the capabilities to offer better financial solutions to them for a better tomorrow and aim to help each individual, each business and each investor. Finally, we will ensure responsible growth by empowering communities, encouraging customers and supporting our employees to achieve excellence.

Our approach to business in the upcoming financial year is brimming with optimism as Pan Asia Bank completes its glorious 25th Anniversary in 2020 and we have earmarked several events to mark this major milestone in our dynamic journey. Acknowledged as one of the fastest-growing banks in Sri Lanka, Pan Asia Bank pioneered several firsts in the banking industry and has built up a good reputation as a banking institution underscored by good governance and ethical operations. In an age where the impact of climate change threatens the future of the planet, Pan Asia Bank leads the local banking industry when it comes to environmental and social stewardship, demonstrating the profound effect of green financing specially among SMEs. As the Bank marks its 25th Anniversary, we aim to renew our commitment to achieving our corporate vision.

We expect 2020 to be a year of rejuvenation for the economy. The restoration of political stability, a transparent approach to management of the economy, easing of tax policies and supportive monetary policies will combine to boost the prospects for a more strident GDP growth than in the past two years. The global economic uncertainty too seems to have tapered off and we believe that the overall conditions are favourable for the Sri Lankan economy to deliver a stronger performance in 2020.

Appreciation

I would like to place on record my deepest gratitude to my colleagues on the Board for their support and guidance in navigating a challenging year. Likewise, the determination and sheer grit shown by the CEO, corporate management team and all other employees have been exemplary and I believe this earnest and combined effort from each and every member of the Pan Asia Bank family has helped the Bank to deliver the strong performance despite the many obstacles through the year. We remain on course to achieving many more milestones in the year ahead, strongly supported by shareholders, customers, business partners and other stakeholders whose faith in us inspires optimism about the future.

Dimuth Prasanna
Chairman

17th February 2020

EXECUTIVE REVIEWS AND MANAGEMENT INFORMATION

Chief Executive Officer's Review

Nimal Tillekeratne
Director/Chief Executive Officer

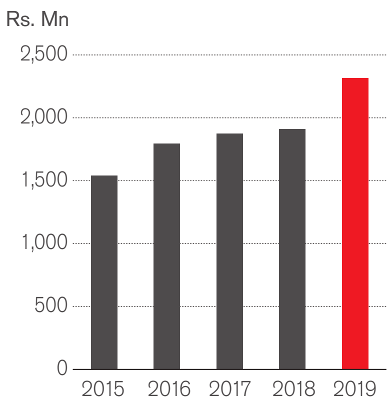
PRUDENTIAL MANAGEMENT OF RISK AND COMMITMENT TO GROWTH DESPITE ODDS LED US TO ACHIEVE THE HIGHEST-EVER PROFITABILITY IN A CHALLENGING FINANCIAL YEAR

Dear Stakeholders,

As the CEO, it is my aspiration to deliver positive news about the economy, the performance of the banking industry and of Pan Asia Bank in particular, which was well-geared to seize opportunities, during the year under consideration. However, the Easter Sunday attacks of April 2019 deferred the hopes of economic recovery or even favourable operating conditions in the banking industry for that matter. I would first like to take a moment to express condolences on behalf of the entire Pan Asia Bank team to the victims of the senseless attack.

The unprecedented event proved detrimental to an already weak economy which was poised at 3.7% GDP by end 2018, eventually ending at a 10-year low growth rate of 2.7% by end 2019. If you recall my message in the last Annual Report, Pan Asia Bank had already buckled down to weather a volatile 2018 and successfully countered negative impact due to the speedy adoption of counter measures and prudent lending strategies. Those measures shored up our confidence and resolve and had prepared us to bounce off the springboard of strong economic recovery in the year under review.

PROFIT BEFORE TAX



While that never came to pass, our preparedness proved beneficial for the Bank as we were able to record modest growth and, most importantly, able to control the growth of Non Performing Advances, unlike the industry. The slowdown in economic activities, especially tourism, trade, transport, construction and other SME businesses, however, majorly impacted many of our customers engaged in these sectors.

AS A RESPONSIBLE CORPORATE CITIZEN, WE ESCHEWED NARROW SHORT TERM GAIN IN THE INTERESTS OF SUSTAINABLE LONG TERM GROWTH THAT EFFECTIVELY SAFEGUARDED OUR CUSTOMERS AND OTHER STAKEHOLDERS.

Before I embark on evaluating our performance in financial year 2019, what pleases me most about the year under review is the responsible growth achieved by the Bank. I am especially glad that as a responsible corporate citizen, we eschewed narrow short-term gain in the interests of sustainable long-term growth that effectively safeguarded our customers and other stakeholders.

Resilient Performance

Through sheer grit, the Bank remained resilient despite the challenges abounding during the year under review. The main challenge faced by Pan Asia Bank and, indeed, the entire banking industry was rising NPLs, which reportedly rose by as much as 300% in industry benchmarked banks due to their aggressive lending tactics in the past. Although the fundamentals of the industry were stable, the market faced an acute liquidity crisis. The regulator stepped in and declared a ceiling for interest rates, which meant Pan Asia Bank, which usually offers a relatively higher interest rate on deposits, had to compete with other banks, thereby prompting us to reduce risky assets to strengthen our portfolio quality.

All unsecured lending such as consumer credit as well as lending to SMEs was carefully monitored to avoid accumulating bad debts. Indeed, banks which had embarked on uncontrolled consumer and SME lending, were faced with dire consequences during the year under review. The conservative approach to growth and risk adopted in the previous year served us well, as we grew our credit book by further by as much as Rs. 4 billion in the year under review. By the end of the financial year, the Bank ended up with a much healthier portfolio quality.

On the other hand, Pan Asia Bank strengthened its push for its secured products such as the pension-backed Sammana product and Government salary assigned Swabhimana loans to make up for lowered unsecured lending. The Sammana product posted a growth of over Rs. 5 billion during the year under review and I am pleased to note that our State pensioner base has grown to almost 45,000 of a base of over 630,000 State pensioner community in the country. Sammana loan scheme for pensioners to divert his/her pension to the Bank and obtain a loan of up to Rs. 4 million without need for guarantors, empowers this valuable segment with new hope and dignity. This scheme has empowered the entire pensioner community and given them newfound respect by considering them as assets to society who have their own unique needs which are now being met by Pan Asia Bank. The Sammana loan scheme is Pan Asia Bank's way to offer innovative financial products and also to cater to social segments that could contribute positively towards the country's economic development. Led by its pioneering spirit, the Bank now holds the distinction of being the first to hold a

Chief Executive Officer's Review

LOOKING AT OUR BUSINESS RESULTS, IT IS CLEAR AS TO HOW WE REMAINED TRUE TO OUR RESPONSIBLE GROWTH STRATEGY BY FOCUSING ON SERVING OUR CUSTOMERS AND CLIENTS AND MANAGING RISK WELL. WE ALSO ARE FOCUSED ON ACHIEVING GROWTH THAT IS SUSTAINABLE.

special event such as 'Garu Saru' to pay tribute to pensioners who have made a valuable contribution to society.

Our pawning and gold loans products too was regulated closely during the year and actually recorded a positive trend during the period under consideration. Overall, Pan Asia Bank made the best of a bad situation by recording positive factors from investors' point of view, such as the highest net asset value and robust increase in provisioning cover as we had already provided for bad loans early in the year, having forecasted the economy taking a turn for the worse. Therefore, the future impact on the Bank will be much less.

One of the main pillars for our reasonable performance against the dismal economic backdrop was the fact that we wasted no time in appointing a Board Committee with oversight on the recovery process to avoid credit exposure. This proved to be an excellent tactic, as were eventually able to maintain the Gross NPL ratio at 6.31%. Needless to say, the weak economy, drop in demand, tight credit and new taxes and levies broke the back of the SME sector, in turn driving loan defaults rates through the roof. We too had to provide for a moratorium on loans given to tourism sector. However, it is difficult to say - given the slow tourism recovery - whether these customers will be able to meet interest payments in the following year as well, which is of concern to medium-sized banks like Pan Asia Bank.

OPERATING PROFIT

Rs.3.40 Bn

30.84%

The Bank delivered a strong performance in core banking operations in 2019, recording a mammoth growth in operating profit of 30.84% to Rs. 3.40 billion despite huge pressure on the industry due to economic downturn. Nevertheless Pan Asia Bank recorded a commendable Profit before Tax (PBT) growth of 21.18% to Rs. 2.31 billion which would have been higher if not for the interest rate ceilings introduced by the Central Bank of Sri Lanka, which hampered deposit growth. Also, the introduction of New Debt Repayment levy cost the Bank Rs. 376.40 million in 2019. The Bank recorded a strong post tax profit growth of 13.55% to Rs. 1.75 billion in 2019 amidst less supportive macro economic conditions and high taxes.

During 2019, leasing activity was slow, since the vehicle market was impacted due to government discouraging imports and introducing levies to stabilise the balance of payments position. But, Pan Asia Bank maintained a strong leasing portfolio of Rs. 8.63 billion as recovery times in the area of leasing is faster than loans to SMEs, which could take up to four years despite valuable collateral in hand. The legal process in re-possession and disposal of collateral of SME credit facilities is cumbersome and this aspect should be addressed by the legal system in order to make home loans less costlier to banks thus affordable to wider customer base.

Over the past two years, a slew of measures were set in motion to restructure human resources to build a dynamic team of professionals, each playing to their strength in strategic roles. The introduction of the new scorecard system which is linked to remuneration has infused a culture of achievement and productivity, whilst simultaneously giving employees the opportunity to identify and alleviate weaknesses amongst people and processes.

Social and Environmental Stewardship

Maintain a well-balanced risk management function with required independence and effective support is critical for decision making. We now have a strong team in place to monitor risk controls to ensure strong compliance. The indigenous risk model we have developed in-house for lending is constantly being evaluated and calibrated for more accurate evaluation of customers.

Effective corporate governance is a tenet for sustaining responsible growth. Throughout the year, the Board meets with management to oversee risk management and governance, and carry out other important duties directly and through Board committees that have strong, experienced chairs and members.

Information security and privacy of data remains our foremost concern and this was evidenced in the Bank being certified ISO 27001 by Bureau Veritas. This certification highlights the Bank's efforts to comply with local and international regulations regarding data protection, privacy and IT governance, which are key concerns for us. Our customers can undertake financial transactions with Pan Asia Bank secure in the knowledge that their private data will remain safe and secure.

Looking at our business results, it is clear as to how we remained true to our responsible growth strategy by focusing on serving our customers and clients and managing risk well. We also are focused on achieving growth that is sustainable.

Recognising the power of our financial capital to make a positive environmental impact, we have accelerated renewable energy financing to encourage a low-carbon, sustainable economy. Prospective clients interested in availing funding for renewable and energy efficiency projects can visit any of our branches to learn more about how the Bank can partner their sustainable goals.

Our social and environmental impact, which does not feature on a balance sheet, proves the true measure of our Bank. Our prosperity is linked inextricably to the communities we serve and the challenges they face. The value we create must also be shared to be sustainable. Pan Asia Bank's contribution in this area was acknowledged at the 'Presidential Environment Awards 2019' on which occasion the former President of Sri Lanka, His Excellency Maithripala Sirisena, bestowed the prestigious Global Climate Partnership Award trophy won by the Bank earlier this year for its green lending efforts. It gave me immense pride to accept the coveted international award amidst a gathering of corporate luminaries and Government officials in special recognition for a Sri Lankan organisation having won an international award in a field related to environment conservation. Pan Asia Bank is the first Bank in Sri Lanka to be bestowed with the Global Climate Partnership Award.

Future Outlook

Pan Asia Bank continues to be agile and sensitive to evolving realities in the industry and wider economy. While the Bank is in full compliance with Basel III guidelines, we remain aware of the need to enhance capitalisation to Rs. 20 billion by end of 2020. We are considering raising fresh equity through issuing of new shares and will reveal more details in the months ahead.

I have the fullest confidence in the ability of Pan Asia Bank to achieve new heights, strongly supported by a dynamic team. Our focus going ahead will be to fine-tune our recoveries process and integrate it further so that it is rendered more efficient. We envision a recovery relationship manager for each customer going ahead.

We have earmarked an aggressive approach in 2020 when it comes to improving credit by targeting high networth customers for short-term credit. Greater flexibility in branch expansion will be optimised while we will seek to improve ratings of the Bank, which should happen automatically after capital raising.

The new leadership at the helm of the country gives us new hope for an improved performance by the national economy as wait to more fully understand the policy direction the new Government will be taking.

Acknowledgements

I would like to extend my appreciation and gratitude to the Chairman and the Board of Directors for their guidance and astute advice through a difficult year. The Chairman Mr. Dimuth Prasanna has provided exceptional leadership to the Board especially during a challenging year. My appreciation also goes out to the officials of the Central Bank of Sri Lanka and other regulatory bodies for their continued support. Backed by a committed and dedicated team, loyal customers, valued shareholders and other stakeholders, I remain highly confident of the Bank's future prospects.

Nimal Tillekeratne

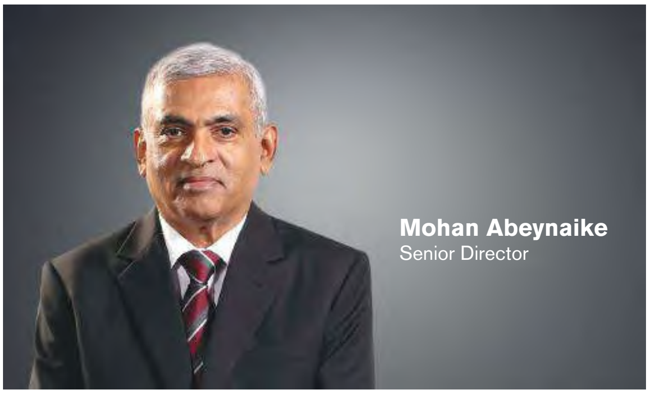
Director/Chief Executive Officer

17th February 2020

Board of Directors

Dimuth Prasanna
Chairman

Sarath Rangamuwa
Deputy Chairman



Mohan Abeynaike
Senior Director

Takashi Igarashi
Director

Toyohiko Murakami
Director

Nihal Kekulawala
Director


Aravinda Perera
Director


Nimal Tillekeratne
Director/Chief Executive Officer


Nayantha Fernando
Deputy General Manager-
Company Secretary

Board of Directors

Dimuth Prasanna
Chairman

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

Sarath Rangamuwa
Deputy Chairman

Mr. Rangamuwa was appointed to the Board as a Director in August 2014 and was appointed as Deputy Chairman in January 2018. He is an experienced professional in management, finance, credit and marketing with over 30 years of senior management exposure having held key positions at strategic and operational levels. Mr. Rangamuwa is the Managing Director of Vallibel Finance PLC since its relaunch. He is a former Director of Mercantile Investments PLC and also had stints at Central Finance and Ernst & Young.

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

Mohan Abeynaike
Senior Director

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

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. As a Japanese national for the first time, Mr. Takashi established a Licensed Securities Company named New World Securities Ltd. 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. He was appointed as a Director of Pan Asia Bank in October 2012.

Toyohiko Murakami
Director

Mr. Murakami is the Chief Executive Officer of Bansei Group, Japan.
Mr. Murakami has over 35 years of experience in managing various business fields consisting of securities, finance, insurance and real estate.
Mr. Murakami has a Bachelors Degree in Law from Kyoto University, Japan.

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

Nihal Kekulawala
Director

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

Aravinda Perera
Director

Mr. Aravinda Perera counts over 36 years in the banking sector and functioned as the Managing Director of Sampath Bank PLC from 1st January 2012, until his retirement in September 2016. He was appointed to the Pan Asia Bank Board in August 2017. Presently he is the Managing Director of Royal Ceramics Lanka PLC and Chairman of Singer Finance (Lanka) PLC. He is a Director of Hayleys PLC, Hayleys Aventura (Private) Ltd., Fentons Ltd. and Hayleys Advantis Ltd.
He is also a former Governing Board Member of the Institute of Bankers of Sri Lanka and Past President of Association of Professional Bankers, Sri Lanka. He is a Member of the Institute of Engineers of Sri Lanka (MIESL) and a Chartered Engineer (C.Eng.). He is also a Fellow of the Chartered Institute of Management Accountants (UK) (FCMA) and a Fellow of the Institute of Bankers - Sri Lanka (FIB). He also holds an MBA from the Post Graduate Institute of Management.

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

Nimal Tillekeratne
Director/Chief Executive Officer

Mr. Tillekeratne was appointed as Director/Chief Executive Officer in April 2017. He counts over 42 years of service in the banking industry in Sri Lanka and overseas. He is an Associate of Institute of the Bankers, Sri Lanka and a passed finalist of Post Graduate Diploma in Business Statistics from University of Moratuwa. He started his career in banking with Commercial Bank of Ceylon PLC, and was the former Senior Deputy General Manager of Sampath Bank PLC and was also on the Board of Sampath Information Technology Solutions Limited, a wholly-owned subsidiary of Sampath Bank.

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

Nayantha Fernando
Deputy General Manager-Company Secretary

Nayantha is an Attorney-at-Law with over 29 years of experience. She was appointed as the Bank's Company Secretary in 1998 and has served the Bank for over two decades.

Corporate Management

Left to Right:

❶ Nimal Tillekeratne
Director/Chief Executive Officer

❷ Naleen Edirisinghe
Senior Deputy General Manager

❸ S. Umakanthan
Deputy General Manager – Credit Administration

❹ Richie Dias
Deputy General Manager – Treasury

❺ Nayantha Fernando
Deputy General Manager – Company Secretary

❻ Nalaka Wijayawardana
Deputy General Manager – Marketing, Cards and Deposit Mobilization

❼ Gerald Wanigaratne
Deputy General Manager – Information Technology

❽ Upali Dharmasiri
Deputy General Manager – Recoveries

9 Jeremy De Zilva
Assistant General Manager – Internal Audit

10 Varuni Egodage
Assistant General Manager – Legal

11 Chandrika Ranawaka
Assistant General Manager – Corporate Banking

12 Harsha Kurukulasuriya
Assistant General Manager – Operations and Administration

13 Shiyan Perera
Assistant General Manager – Retail Credit

14 Thilani Peiris
Assistant General Manager – Commercial Credit

15 Rajendran Rangith
Assistant General Manager – Chief Risk Officer

16 Suranga Fernando
Assistant General Manager – Chief Financial Officer

17 Sampath Alwis
Assistant General Manager – Human Resources

Corporate Management

Nimal Tillekeratne

Director/Chief Executive Officer

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Naleen Edirisinghe

Senior Deputy General Manager

Naleen counts over 30 years of banking experience in commercial banks including Commercial Bank of Ceylon and National Development Bank. He joined Pan Asia Bank in 2000 and has extensive experience in retail and SME banking including credit, recoveries, project financing and branch operations. He holds an MSc in Management from the University of Sri Jayewardenepura. He is also a Fellow of the Institute of Bankers of Sri Lanka, Fellow of the Certified Professional Managers and a member of the Association of Professional Bankers, Sri Lanka.

S. Umakanthan

Deputy General Manager – Credit Administration

Umakanthan is a versatile and pragmatic banker and counts over 37 years of experience in the banking industry at operational and tactical management to Strategic/Corporate Managerial levels. He served at Hatton National Bank 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 of Sri Lanka and also holds a Postgraduate Diploma in Assets and Liability Management from the Post Graduate Institute of Management, University of Sri Jayewardenepura.

Richie Dias

Deputy General Manager – Treasury

Richie joined Pan Asia Bank from Barclays Bank, Dubai where he held the position of Head of Treasury Middle Office. He has also served Seylan Bank PLC as Assistant General Manager - International Financial Services and prior to that Grindlays Bank Limited as FX Dealer. He has 39 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 of Sri Lanka and an MBA from University of North West, USA. He is a Member of the Association of Professional Bankers, Sri Lanka.

Nayantha Fernando

Deputy General Manager – Company Secretary

Nayantha is an Attorney-at-Law with over 29 years of experience. She was appointed as the Bank's Company Secretary in 1998 and has served the Bank for over two decades.

Nalaka Wijayawardana

Deputy General Manager – Marketing, Cards and Deposit Mobilization

Nalaka is a marketing specialist with over 26 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.

Gerald Wanigaratne

Deputy General Manager – Information Technology

Gerald Wanigaratne has over 30 years of experience in the banking field, commencing his banking career with short stints at Commercial bank of Ceylon and ABN Bank. He joined Seylan Bank PLC where he gained experience in Branch Operations, Credit and Audit before moving to Information Technology where he served for 16 years at Senior Management positions, finally as Assistant General Manager. Information Technology prior to joining Pan Asia Bank in January 2018. He has an MBA in Information Systems from the University of Wales and is a non practicing Certified Information System Auditor (CISA) and Certified Information System Manager (CISM) awarded by the Information Systems Audit and Control Association, USA.

Upali Dharmasiri

Deputy General Manager – Recoveries

Upali counts over 32 years of experience in banking which includes over 15 years at senior and corporate management capacities. He holds an Economics 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.

Jeremy De Zilva

Assistant General Manager – Internal Audit

Jeremy counts over 30 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, Sri Lanka. He is currently the Secretory General of the Association of Professional Bankers, Sri Lanka and the President of the Bankers' Chief Internal Auditors Forum, Sri Lanka.

Varuni Egodage

Assistant General Manager – Legal

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

Chandrika Ranawaka

Assistant General Manager – Corporate Banking

Chandrika counts over 25 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 14 years experience in credit analysis and managing local as well as multinational global relationships.

Prior to joining Pan Asia Bank, he has worked in Hatton National Bank PLC, Union National Bank - UAE, BNP Paribas - UAE and DFCC Bank PLC. He holds an MBA from the University of Southern Queensland Australia and a Post Graduate Diploma in Business and Finance from the Institute of Chartered Accountants of Sri Lanka. He is also an Associate of the Institute of Bankers of Sri Lanka and Sri Lanka Institute of Credit Management.

Corporate Management

Harsha Kurukulasuriya

Assistant General Manager - Operations and Administration

Harsha is a banker with proven track record of 32 years experience including overseas in branch banking, bank operations, credit evaluation, disbursement and follow-up, process development and re-engineering, customer relationships, efficient management of resources, work ethics and regulatory compliance, operational risk and market risk etc.

He joined Pan Asia Bank in 2011 as a Senior Manager - Branch and served the Bank in an exemplary manner. He holds an MBA from the American City University, USA and also an Associate of the Institute of Bankers, Sri Lanka.

Shiyan Perera

Assistant General Manager - Retail Credit

Shiyan joined Pan Asia Bank in 2010 as Head of Leasing. He counts over 25 years of experience in both banking and leasing including at 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, UK.

Thilani Peiris

Assistant General Manager - Commercial Credit

Thilani counts over 26 years of experience in banking which includes over 11 years in the senior management covering branch banking, regional management and private banking. She joined Pan Asia Bank in 2008 and has extensive experience in Retail & private banking including credit, branch operations and offshore banking. Prior to joining Pan Asia Bank she has worked at Nations Trust Bank and Seylan Bank covering all areas of branch banking and private banking.

Thilani possesses a wealth of hands-on expertise in catering to local and foreign high net worth individuals and high-end SME clients. She has had extensive training in leadership and Private Banking in Sri Lanka, Singapore and from Indian Institute of Management (IIM), Ahmadabad, India.

Rajendran Rangith

Assistant General Manager - Chief Risk Officer

Rangith counts over 19 years of experience in banking, including 8 years in the senior management category, covering branch banking, credit operations & supervision, branch operations and risk management. He is a Fellow of the Chartered Institute of Management Accountants - United Kingdom (CIMA-UK) and holds a Bachelors Degree (External) in Business Administration from the University of Sri Jayewardenepura, Sri Lanka.

Suranga Fernando

Assistant General Manager - Chief Financial Officer

Suranga joined Pan Asia Bank as the Manager - Finance in September 2011 and currently serves as the Chief Financial Officer of the Bank. He counts over 12 years of experience in the fields of banking, finance, planning, auditing and taxation.

He started his career at KPMG Sri Lanka before joining Pan Asia Bank. He is an Associate of the Institute of Chartered Accountants of Sri Lanka and the Institute of Certified Management Accountants of Sri Lanka. He holds a Bachelors Special Degree in Accounting from the University of Sri Jayewardenepura, Sri Lanka.

Sampath Alwis

Assistant General Manager -
Human Resources

Sampath is a HR professional with over 23 years of overall experience in the field of human resources in diverse industries including manufacturing, travel & tourism, apparel, BPO, IT, finance and accounting, retail and FMCG. Prior to joining Pan Asia Bank, he has been an independent HR Consultant. He held the position of Senior General Manager - Group HR Operations in Brandix Group. He has worked for Sri Lankan and multinational conglomerates such as Brandix Group, Aegis Service Lanka, Virtusa (Pvt) Ltd., AVIVA Global Service, WNS Customer Solutions Pvt Ltd., Richard Pieris & Company, Unilever and MILCO Industries Lanka Ltd.

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

Senior Management

1. Nimal Ratnayake
Chief Manager - Branch Credit

2. Umaharan Jeganathan
Chief Manager - Consumer Credit

3. Anthony Gnanapragasam
Chief Compliance Officer

4. Yohan Ebell
Chief Manager - Central Area

5. Thushari Malalgoda
Chief Manager - Human Resources

6. Harsha Samaranayake
Chief Manager - Colombo Central Area

7. Thilani Punyawansa
Senior Manager II - Compliance

8. Sanjaya Weerasekera
Senior Manager II - Credit Risk

9. Anushka Wimalasena
Senior Manager II - Colombo South Area

10. Rajitha Silva
Senior Manager - Administration and Premises

11. Prakash Selvarajah
Senior Manager - Operations

12. Thushara Suraweera
Senior Manager - Branch

13. Kapila Peiris
    Senior Manager - Internal Audit
14. Dushshantha Wijekoon
    Senior Manager - Central Operations
15. Anuradha Gamage
    Senior Manager - Branch
16. Hiran Perera
    Senior Manager - Branch Credit
17. Chrysanthus Peiris
    Senior Manager - Collections and Recoveries
18. Chamath Atukorale
    Senior Manager - Treasury Middle Office
19. Renuka Kurukulasuriya
    Senior Manager - Branch
20. Renuka Premkumar
    Senior Manager - Branch
21. Aravinda Rodrigo
    Senior Manager - Corporate Banking
22. Sudhila Perera
    Senior Manager - Colombo Outer Area
23. Thilini Ramanayake
    Senior Manager - IT Service Delivery and Projects
24. Premanathan Prathaban
    Senior Manager - Eastern Area

Senior Management

25. Indika Liyanage
Senior Manager - Trade Services

26. Kithsiri Weerakoon
Senior Manager - North Western Area

27. Anuradha Ranaweera
Senior Manager - Southern Area

28. Malintha Liyanage
Senior Manager - Cards

29. Primal Vithana
Senior Manager - Colombo North Area

30. Jagath Athukorala
Senior Manager - IT Infrastructure

31. Trishene De Mel
Senior Manager - Bazaar Area

32. Rajaratnam Kulendiran
Senior Manager - Northern Area

33. Darshika Peiris
Senior Manager - Treasury Settlement

34. Nilanga De Silva
Senior Manager - Treasury

35. Sanjaya Silva
Senior Manager - Branch Credit

A WINNING SPIRIT

“Competing at the highest level is not about winning. It’s about preparation, courage, understanding and nurturing your people and heart. Winning is the result” – *Joe Torre*

MANAGEMENT DISCUSSION AND ANALYSIS

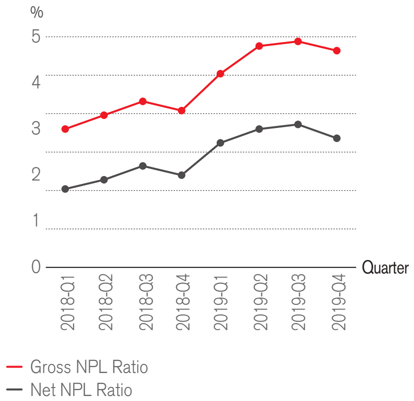
MANAGEMENT DISCUSSION AND ANALYSIS

Macro Economic Review

Macro-Economic Backdrop in 2019

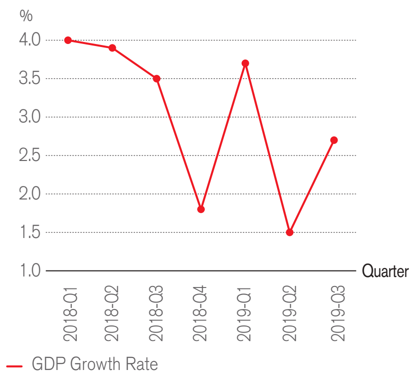
Sri Lanka's economy remained vulnerable through-out the financial year 2019, characterised by high public debt, large refinancing needs, low external buffers and weak economic activity. The International Monetary Fund (IMF) estimated public debt to be poised at about 90% of GDP as at end of 2018, reflecting weaker economic performance and a sizeable depreciation of the Sri Lankan Rupee.

NON-PERFORMING LOANS OF THE BANKING SECTOR



Source: Central Bank of Sri Lanka

REAL GDP GROWTH



Source: Central Bank of Sri Lanka

Exacerbating the situation further in 2019, tourism, foreign investment and overall business activity eased sharply in the wake of the devastating Easter Sunday bombings, bringing the overall GDP growth rate to a record low of almost two decades by end 2019, ending at under 3% for the year. According to the Department of Census and Statistics, the Sri Lankan economy grew at the slow pace of 2.7% during the third quarter of 2019 following 1.5% in the second quarter of the year. Agriculture related activities grew marginally by 0.4%, adversely affected by inclement weather conditions, while services and industry related activities expanded by 2.8% and 3.3%, respectively. Even workers' remittances were somewhat low, while outflows of foreign investment were observed from the Government securities market and the equity market during the year under review.

Nevertheless, the Sri Lankan Rupee appreciated against the US Dollar by 0.7% during 2019, with mixed movements being recorded throughout the year, while gross official reserves remained at USD 7.5 billion by end November 2019, which were sufficient to cover 4.5 months of imports.

Although a steady expansion in credit disbursed to the private sector in absolute terms was observed in the last quarter of 2019, the year-on-year growth of private sector credit continued to decelerate during the year. The banking sector private credit growth slowed down significantly by December 2019 to 4.5%, from 15.90% in December 2018, driven by a reduced appetite for lending among banks and weakened credit demand against a challenging operating environment.

In response, the Central Bank of Sri Lanka (CBSL) directed a cap on lending rates actions intended to accelerate the effects of previous measures to reduce lending rates, including a reduction in policy rates, a decrease in the Statutory Reserve Ratio (SRR) and a cap on rupee deposit interest rates that has since been lifted with the introduction of the lending rate cap. A notable contraction was seen in retail and SME categories. Private sector credit growth seems likely to pick up next year with an anticipated reduction in lending rates and recovery in business confidence and sentiment.

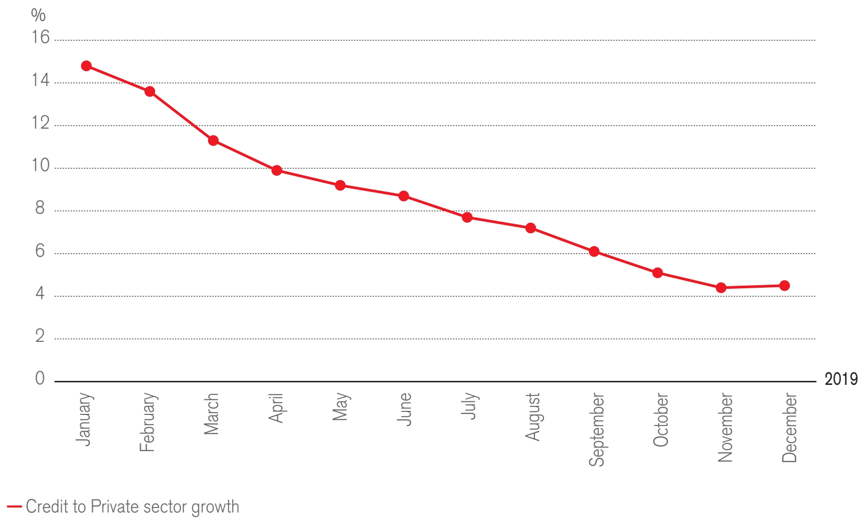
Moreover, the 2019 financial year was marked by deterioration of credit quality and continuous increase in Non-Performing Loans (NPLs). The sector-wide NPL ratio rose to 4.7% at Q4 2019 from 3.4% at 31st December 2018. The Central Bank of Sri Lanka ordered banks to reduce the interest rates on all rupee-denominated Loans and Advances by at least by 200 basis points from the level prevailed in April 2019.

Going forward, money and credit aggregates are expected to recover gradually, with the expected continued decline in lending rates, enhanced tax reliefs and other mechanisms that are being introduced to revive economic activity.

The market lending rates continued to adjust downwards in response to monetary and regulatory measures taken by the CBSL. The Monetary Board of CBSL slashed SRR of banks by 100 basis points with effect from 1st March 2019 to 5%. Meanwhile the Monetary Board of the CBSL has revised its accommodative monetary policy stance with the SDFR and the SLFR several times during the year. At the beginning of the 2019, SDFR and the SLFR stood at 8% and 9% respectively. In May 2019, the SDFR and the SLFR were cut down by 50 basis points to 7.5% and 8.5% respectively.

In August 2019, with the aim of further supporting the revival of economic activity in the context of low inflation prevailing at that time and the medium term inflation outlook, the Monetary Board revised SDFR and SLFR rates downwards further for the second time by 50 basis points to 7% and 8% respectively and maintained them at same level until end of the year. Further the Monetary Board ordered all banks to reduce of interest rates for Loans and

GROWTH IN CREDIT TO PRIVATE SECTOR



Source: Central Bank of Sri Lanka

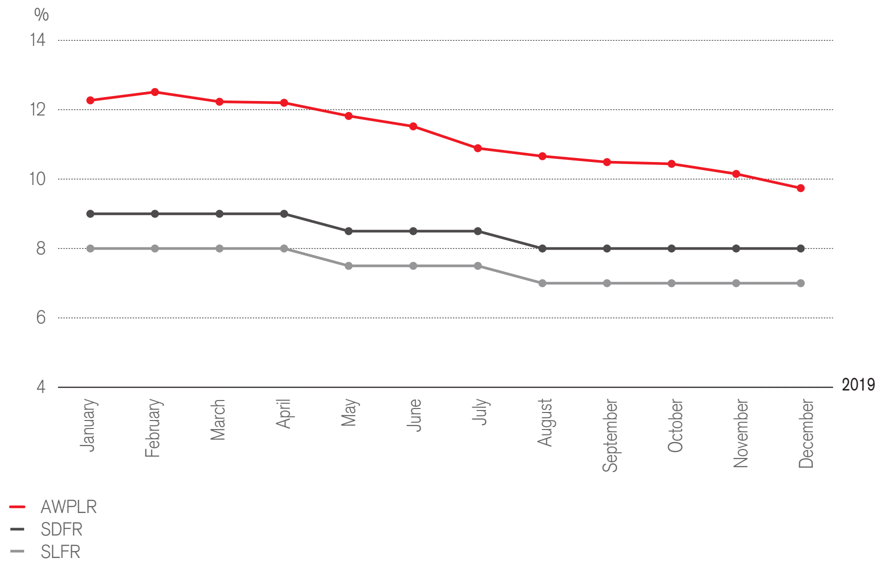
Advances. Further these decisions of the Monetary Board is consistent with the aim of maintaining inflation in the 4%-6% range while supporting economic growth to reach its potential over the medium term.

In late 2019, the newly-elected government announced sweeping tax concessions in an effort to help reducing the cost of living incurred by the public. These concessions include abolishment of taxes such as Nation Building Tax, Economic Service Charge, Debt Repayment Levy and Withholding Taxes and slashing of tax rates for Value Added Tax, Corporate and Personal Income Tax etc. Further new tax exemptions and concessions are proposed for many industries.

Performance on the trade front continued to improve during the first ten months of 2019 with imports contracting considerably and merchandise exports recording a modest growth, thereby leading to a cumulative contraction in the deficit in the trade account. The tourism sector, which suffered a setback following the Easter Sunday attacks, has since recorded a faster-than expected recovery. Going forward, a steady revival of economic activity is envisaged, supported by improved political stability and short-term measures to stimulate the economy. It is expected that this momentum will be sustained through the introduction of appropriate medium to long-term structural reforms.

The year 2019 ended on a less than desirable note despite political stability being restored with a new government in place. However, international credit rating agencies revised the country's sovereign credit outlook to 'Negative' from 'Stable' in view of the possible negative impact on fiscal consolidation process as a result of the sweeping tax concession package announced. The policy statement of the President to the Parliament in January 2020 revealed the government's economic roadmap and provided an indication of what lies ahead for the Sri Lankan economy in 2020 and beyond.

BEHAVIOUR OF POLICY RATES



Source: Central Bank of Sri Lanka

Financial Review

Overview

Pan Asia Bank ended the financial year 2019 with record-breaking financial results in its history of 24 years, with the highest-ever profit before taxes & levies on financial services, profit before income taxes as well as post tax profits. This historic performance was achieved despite operating in an unfavourable macro-economic and political environment in the aftermath of the Easter Sunday attacks, the increase in relief given to borrowers, volatility of interest rates due to caps on deposits, loans and advances; as well as the downward trend in the overall economy .

The Bank ended the financial year 2019 with an operating profit before taxes and levies on financial services of Rs.3,402.68 million, marking an increase of 30.84% amidst challenging conditions. The reduced impairment charges, supported by the improved underwriting standards and concerted recovery efforts as well as the reasonable performance in core banking activities contributed to this impressive growth in operating profits in 2019, whereas high taxes imposed by the government scaled this down considerably. The unique, diversified business model of the Bank has continued to exhibit the strength to proceed with multiple challenges arising out of various operational factors.

The steep 57.53% increase in taxes and levies on financial services undermined the Bank's Profit before tax to a great extent. This performance is reflected in a growth in Profit before taxes by 21.18% to reach Rs. 2,314.14 million. Meanwhile, the Profit for the year grew by 13.55% to Rs. 1,750.57 million after taking into account the full year's impact of the New Inland Revenue Act. The New Inland Revenue Act that came into effect on 1st April 2018 abolished most tax concessions and reliefs available under the previous Act.

Buoyed by the impressive bottom-line, the Earnings per Share for the year 2019 rose to Rs. 3.96 from Rs. 3.48 in the previous financial year. Supported by the exceptional financial performance, the Bank managed to improve its key profitability indicators, that is, Return on Equity and Return on Assets ratios to 14.50% and 1.15% in 2019 respectively, which now rank among the highest in the industry. In 2018, the Bank recorded a ROE and ROA of 13.73% and 1.03% respectively.

As a result of the net surpluses from revaluation of Bank owned land and buildings, Other Comprehensive Income for the year increased by 1,703.74% to Rs. 331.58 million in 2019, which ensured the Bank reporting a Total Comprehensive Income for the year of Rs. 2,082.14 million, which reflects a growth of 33.47%.

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

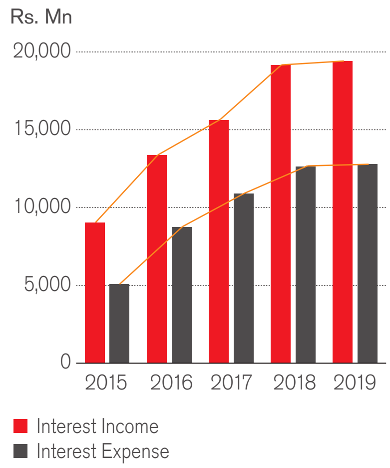
Net Interest Income

Interest income accounted for 88.63% of the Bank's gross income in 2019 after increasing to Rs.19.42 billion in 2019 from Rs.19.16 billion in 2018 (2018: 88.4%). The Bank's interest income grew marginally by 1.35% in 2019 despite unfavourable conditions that affected the banking industry and the economy as a whole.

The factors which contributed towards the growth in Interest Income include moderate growth in gross loans and advances. This was achieved amidst lackluster demand for credit affected by policy uncertainty as reflected in industry-wide slow credit growth in 2019, loss of income from increased NPLs in absolute terms, and negative impacts from the monetary law forcing reduction of AWPLR and interest rates of lending products. As a result of the aforesaid statutory order, the Bank's had to re-price the existing loan book downwards which contained the growth in Interest Income to a greater extent. Further, the loan moratorium to the tourism industry also created some adverse impact on the Bank's top line.

The growth in the Bank's Interest Expenses is limited to 1.13% in 2019 due to re-pricing of a substantial part of the deposit book at lower interest rates, despite the deposit book growing at a much higher pace. Consequently, the Bank's net interest income rose marginally by 1.78% to Rs. 6.63 billion in 2019 from Rs. 6.52 billion in 2018.

INTEREST INCOME VS INTEREST EXPENSE



Non-interest Income

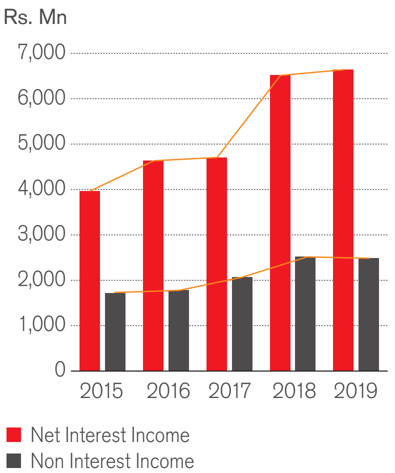
The Bank's total non-Interest Income consisting of fee and commission income, net trading gains and other operating income, came down marginally by 0.95% in 2019. A substantial drop in income from the trade finance business was the key factor as the country witnessed a slowdown in import volumes during the year due to low vehicle imports. Meanwhile, the drop in loan related fee income, low demand for credit due to slowdown in economic activities and policy uncertainty also a key reason for the decline. In contrast, credit card related fees saw an increase of 22.06% in 2019 due to high volume of credit card transactions. Meanwhile, fee and commission expense decreased by 43.26% in 2019, which finally caused net fee and commission income to expand by 1.69% to Rs.1,545.32 million in 2019.

Net gains from trading activities witnessed a significant growth of 36.34% in 2019 to Rs. 649.58 million from Rs. 476.43 million recorded in 2018, mainly supported by the favourable movements in forward exchange rates and market interest rates for government securities in favour of the Bank during the year under review.

Meanwhile, Other Operating Income declined sharply by 42.85% to Rs. 235.60 million in 2019 from Rs. 412.22 million in 2018. This was due to the significant decline in realised forex gains, following a marginal appreciation of Sri Lankan Rupee against the US Dollar by 0.9% in 2019, in contrast to the substantial depreciation recorded in 2018 and drop in trade and remittance transaction volumes.

As a result, Total Operating Income of the Bank grew by 1.55% to Rs. 9.07 billion in 2019.

NET INTEREST INCOME VS NON INTEREST INCOME



Credit Quality

The Bank witnessed the gross Non Performing Loan (NPL) ratio increasing upwards by 87 basis points to 6.31% in 2019 due to deterioration in credit quality seen across the industry throughout the 2019. The industry gross NPL ratio increased from 3.4% at end 2018 to 4.7% as at end 2019. Meanwhile, the gross NPL ratio of smaller banks remained at 7.7% by at the end of 2019. The Bank's net NPL ratio improved to 2.82% in 2019 from 3.08% in 2018, supported by prudential provisioning for possible credit losses, in contrast to the industry average, which deteriorating from 2.00% to 2.80% over the past 12 months due to the upsurge in NPLs.

The Bank's concentration on 'stage 1 credit exposures', the most important indicator of the healthiness of advance book improved by 100 basis points to touch 80% level by end of 2019 - supported by improved underwriting standards and concerted efforts for recoveries.

Impairment Charges

Credit loss expenses in the industry began to increase at a higher rate after implementation of SLFRS 9 from 2018, as a result of the shift from incurred loss model calculation to expected credit loss calculation. The total impairment charge for the year under review decreased by 43.64% to Rs.1,136.84 million in comparison with Rs. 2,017.15 million recorded in 2018. The main reasons for this decrease was significant reduction in individual impairment charges by over Rs. 840.49 million due to the success of aggressive recovery efforts and astitute credit risk management practices.

Meanwhile, the collective impairment provisions also reduced by 5.53% to Rs. 680.03 million from Rs. 719.85 million in 2018 supported by net reversals 'stage 1' and 'stage 2' credit exposures.

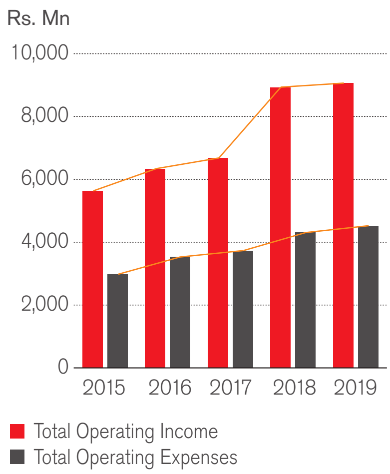
Operational Efficiency

The Bank managed to contain the growth in total operating expenses consisting of personnel expense and other operating expenses by 5.03% to Rs. 4.525.56 million during the year under review from Rs. 4.308.82 million in 2018 despite rising costs. Demonstrating operational efficiency, the Bank has been maintaining the growth in operating income at a pace faster than the increase in expenses in the past. However, as a result of adverse macro economic conditions prevailing through the year under review, the Bank witnessed slow growth in total operating income, which caused the Bank's Cost-to-Income ratio to fall to 50.26% in 2019 from 48.88% in the preceding year.

An increase of 5.92% in personnel expenses corresponds to new recruitments, internal promotions offered in recognition of the performance, high performance based bonuses and incentives and general increase in other overhead expenses in line with the rate of inflation.

Meanwhile, other operating expenses increased moderately by 4.35% during the year under review due to significant increase in business development expenses focusing on business improvement, increased expenses on IT support services, focusing on superior customer services and expenses on aggressive recovery processes.

TOTAL OPERATING INCOME VS TOTAL OPERATING EXPENSES

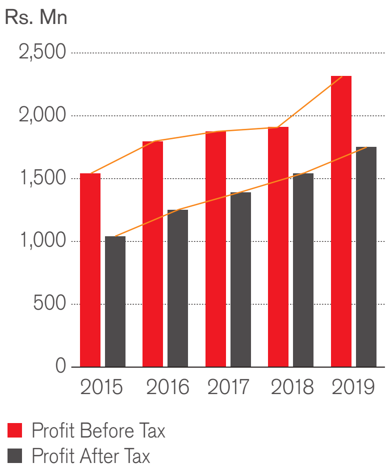


Financial Review

Taxation

The Bank's contribution to the government via direct taxes consisting of DRL, VAT and NBT on Financial Services and income taxes increased by 56% Rs.1,652.11 million, compared to Rs.1,059.01 million in 2018. The surge in direct tax burden was significantly impacted by the full year impact of the Debt Repayment Levy which was introduced during the final quarter of 2018 as well as the increase in operating profit during the year under review. As a result, total effective tax rate increased to 48.55% in 2019 compared to 40.72% in 2018.

PRE-TAX VS POST-TAX PROFIT



Financial Position

A marginal contraction of 0.68% was observed in the Bank's total asset base in 2019, even though the Bank's loan book grew at a slow pace during the year under review. The economic downturn resulting from the Easter Sunday attack led to low foreign investments, high inflation and overall dip in the economy which caused the Bank to reduce its financial position from Rs.154.02 billion in 2018 to Rs.152.98 billion in 2019.

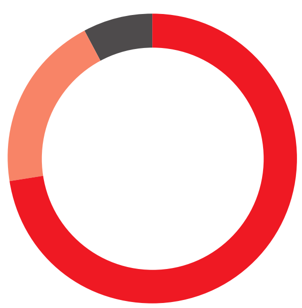
Composition of Assets

Concessions offered to borrowers by the government, tight taxation regime and overall weak economic performance curtailed the growth of banks in 2019. Nevertheless, the Bank grew gross loans to Rs.117.50 billion, by 3.53% in contrast to the previous year credit growth of over 12.42%. The main lending products that drove the growth in 2019 were Term loans, Credit cards, Pawning & Gold loans. During the year under review, the Bank did not lend vigorously to sectors that exhibited high stress as a step in the Bank's prudential lending decisions.

Although the overall loan book grew at a slow pace in 2019, the Bank strategically shifted the exposure of high risk segments to segments with fairly low level of credit risk, taking a short term hit on the interest income in view of minimising potential credit losses. Reflecting the results of this prudential move, the Bank managed to contain the growth in accumulated impairment provisions under 20% during the year under review. The Bank's concentration on SME sector contracted from 42.20% to 32.26% over the past twelve months, and as such the Bank will not feel a major effect of the proposed moratorium to SME sector in years to come.

Due to the aforesaid prudential move, the Bank, contained the growth in impairment allowances to 18.59%. Total impairment allowances on loans and advances was Rs. 6.32 billion for Rs.117.5 billion gross loans under 2019, in contrast with Rs. 5.33 billion recorded against Rs.113.49 billion in 2018.

COMPOSITION OF TOTAL ASSETS

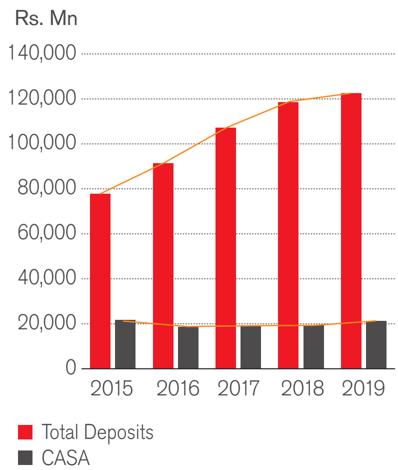


Loans and Advances	72.68%
Investments	19.78%
Non Income Earning Assets	7.54%

Funding Structure

Amidst the low interest rate regime that prevailed during a significant part of the year in 2019, total deposit book of the Bank grew by 3.3% to Rs. 122.54 billion in 2019 (2018 - Rs.118.63 billion) portraying the depositor's confidence in the Bank. The slow deposit growth of 3.31% was a result of the conscious efforts made of the Bank to slow down deposit mobilisation in view of low demand for credit and also to get rid of certain large high cost time deposits with the view of improving the Bank's net interest margins. The retail business strength maintained by the Bank was the root cause of this, while operating in an unsuccessful economy.

TOTAL DEPOSITS VS CASA



Meanwhile, dues to debt security holders decreased by 10.16% to Rs. 11.94 billion in 2019 compared to Rs.13.30 billion recorded in 2018 due to repayments of several term borrowing installments during the year. Furthermore, the Bank redeemed debentures amounting to Rs. 5.81 billion in 2019. The Bank's CASA ratio grew moderately by over 100 basis points to 17.37% from 16.25% recorded in 2018.

Meanwhile, net interest margin remained fairly unchanged marginally to 4.36% from 4.37% recorded in 2018. The net interest margin has been negatively impacted by forced reduction of lending rates, slow growth in credit book, rising non performing advances as well as financial cost of lease liabilities under the newly-implemented accounting standard, SLFRS 16: Leases.

Shareholder's Funds

The Bank's total shareholder funds increased by 18.51% in 2019, with a growth of over Rs. 2 billion compared to the marginal increase of 5.41% recorded in the previous financial year. The growth in shareholder funds in 2019 was supported by the strong internal generated capital of Rs.1.75 billion and net increase in revaluation surpluses on Land and Building of Rs. 327.67 milllion.

Meanwhile, the Bank's Net Asset Value per Share as at 31st December 2019 stood at Rs. 30.12, having increased from previous year-end figure of Rs. 25.41 supported by aforesaid factors. The Bank did not distribute any dividends to shareholders in both 2018 and 2019 in view of building adequate capital buffers to support future growth and to meet forthcoming increased minimum capital requirements.

Return on Equity (ROE) improved to be the highest in the industry at 14.50% in 2019 maintaining momentum despite unfavourable macro economic conditions through the year. In order to improve and maintain the momentum, the Bank is well focused on improving the quality of credit thorough rigorous collection and recovery efforts and exploring ways of business development.

Regulatory Capital

Common Equity Tier 1 capital before adjustments of the Bank as at 31st December 2019 amounted to Rs. 12.85 billion, while the total capital stood at Rs.13.98 billion as at the year-end. The Bank's Common Equity Tier 1 ratio and Tier 1 Capital ratio as at the year-end improved to 12.87% from 11.51% in the preceding year, mainly supported by the strong internal capital generation, notwithstanding the slow growth in credit book in 2019. Both CET 1 and Tier 1 ratios as at 31st December 2019 stood well above the regulatory minimum requirements of 7.0% and 8.5% respectively.

The Bank's Total capital ratio as at the end of 2019 stood at 14.31%, having improved from 13.32% of the previous year due to the growth in CET 1 capital, despite the negative impact from maturity of Tier 2 eligible subordinated debentures of Rs. 3 billion. The regulatory minimum for capital ratio as at 31st December 2019 is 12.50%. Meanwhile, newly introduced Leverage Ratio under BASEL III stood at 7.06% against the statutory minimum of 3%.

The Bank's Liquidity Coverage Ratios under BASEL III in Sri Lankan Rupees and All Currencies as at 31st December 2019 stood at 128.84% and 165.02% respectively against the statutory minimum of 100%. The Bank's Net Stable Funding Ratio as at the end of the financial year stood at 128.24% against minimum requirement of 100%. Meanwhile, the Bank's Statutory Liquid Asset Ratios for Domestic Banking Unit and Foreign Currency Banking Unit stood at 24.93% and 23.61% respectively at the end of 2019.

Future Outlook

The International Monetary Fund (IMF) estimates Sri Lanka's GDP growth to increase to 3.7% in 2020 after economic growth slowed to 2.6% in 2019, in the aftermath of a currency collapse in 2018 and Easter Sunday attacks in April 2019 which hit tourism. The recovery was in part due to strong performance by the manufacturing sector and a rebound in tourism and related services in the second half of 2019. Concerted initiatives are needed to foster the business climate, promote trade openness and investment, and strengthen infrastructure sustainably, including responding to challenges from climate change.

The growth of the banking sector is dependent on overall economic growth. The construction industry and tourism are the two biggest drivers of growth. The growth of the construction industry slowed down in past years as the previous government failed to make timely payments to contractors and sub-contractors. This industry may not revive immediately as most banks are reluctant to lend to the sector due to high concentration. Going forward, a steady revival of economic activity is envisaged, supported by improved political stability and short term measures to stimulate the economy. It is expected that this momentum will be sustained through the introduction of appropriate medium to long term structural reforms. However, international credit rating agencies revised the country's sovereign credit outlook to 'Negative' from 'Stable' in view of the possible negative impact on fiscal consolidation process as a result of the sweeping tax concession package announced.

Overhauled Tax Structures

Sri Lanka has sharply cut taxes after a new administration was elected in November 2020, reversing a so-called 'revenue based fiscal consolidation' which not only raised Value Added Tax, but also direct taxes, which reduces investible capital, future growth and jobs.

In late 2019, the newly elected government announced sweeping tax concessions in an effort to help reducing the cost of living incurred by the public. These concessions include abolishment of taxes such as Nation Building Tax, Economic Service Charge, Debt Repayment Levy, Withholding Taxes and slashing of tax rates for Value Added Tax, Corporate and Personal Income Tax etc. Further new tax exemptions and concessions are proposed for many industries.

The new tax concessions would improve the sentiments of the business community immensely and is expected to drive the demand for credit going forward. The government's decisions to abolish several taxes on banking and financial services will improve banking sector profitability levels as well as the outlook of the sector. The concession package offered by the government for other underperforming sectors by the way of tax and interest rate concessions are expected to contribute for faster growth of the economy in the future, while resultant benefits are expected to flow into banking sector in the form of recovery of existing delinquent loans and improve sentiments of borrowers to go for business expansions.

Impact of Tax Cuts

The tax cuts however are expected to widen the deficit to 7.9% of GDP in 2020, the IMF has projected, with not just direct taxes being cut, but also value added tax. There were also payment arrears from 2019, but perhaps measures to improve efficiency in the public administration and strengthen revenue mobilisation can help reduce the high public debt, while preserving space for critical social and investment needs.

Credit Growth to Surge

The Banking sector lending rates are expected to adjust downwards further in 2020 in response to monetary and regulatory measures taken by the Central Bank of Sri Lanka, which will drive much needed private sector credit growth from year 2020 onwards. The credit matrices of the banking sector are expected to improve in the long run, although some banks may face cash flow difficulties in the short term due to delayed cash inflows due to moratoriums to Tourism and SME sectors. Supported by the accommodative monetary policy stance, growth of credit extended to the private sector picked up in December 2019, on a year-on-year basis.

Growth of credit to the private sector is expected to pick up to around 12%-13% by end 2020. This is sufficient to support a revival of economic activity. Driven by the expected growth in private sector credit, growth of broad money supply is likely to reach around 14% by end 2020. This is not expected to cause any excessive build-up of demand pressures with adverse impacts on inflation. Going forward, money and credit aggregates are expected to recover gradually, with the expected continued decline in lending rates, enhanced tax reliefs and other mechanisms that are being introduced to revive economic activity.

Monitoring Inflation

In August 2019, with the aim of further supporting the revival of economic activity in the context of low inflation prevailing at that time and the medium term inflation outlook, the Monetary Board revised Standing Deposit Facility Rate (SDFR) & Standing Lending

Facility Rate (SLFR) downwards further for the second time by 50 basis points to 7% and 8% respectively and maintained them at same level until end of the year.

Further the Monetary Board ordered all banks to reduce interest rates for Loans and Advances. Further these decisions of the Monetary Board is consistent with the aim of maintaining inflation in the 4%-6% range while supporting economic growth to reach its potential over the medium term.

In spite of such short term fluctuations, the near term forecast suggests that inflation will hover below 5% in 2020, and stabilise between 4%-6% thereafter, assisted by appropriate policy measures and underpinned by well anchored inflation expectations.

Interest Rates

In line with the envisaged low inflation environment, reasonably low nominal interest rates are expected over the medium term to boost domestic economic activity. However, this could affect fixed income earners, particularly senior citizens, in this fast ageing society. In this regard, banking and other financial institutions should develop new financial products to suit the needs of such affected segments of the population.

Exports Set to Recover

External sector remains resilient amidst growing macroeconomic headwinds as trade performance during the first eleven months of 2019 improved over the previous year with a notable contraction in imports and a marginal improvement in merchandise exports, resulting in a significant decline in the trade deficit.

Exchange Rate to Remain Stable

The Sri Lankan Rupee, which appreciated by 0.6% against the USD in 2019, remained broadly unchanged. Gross official reserves are estimated at USD 7.6 billion at end 2019, providing an import cover of 4.6 months. The pickup in money and credit growth observed in December 2019 is expected to continue in 2020.

Global Outlook

The global economy is estimated to have grown by 2.9% in 2019 and projected to grow by 3.3% and 3.4% in 2020 and 2021, respectively. Meanwhile, global growth prospects have been further threatened by the spread of Coronavirus originated in China. In light of subdued global growth and softening inflationary pressures, Central Banks of advanced economies continued to maintain an accommodative policy stance, while a number of emerging market economy Central Banks eased monetary policy further thus far in 2020.

Business Review

Overview

The challenging operating conditions the banking industry faced during the preceding year further accelerated in the financial year under consideration. Yet, Pan Asia Bank performed reasonably well when compared to the industry by leveraging its strong customer relationships, agile team of employees and prudent fiscal discipline to record a robust performance. In fact, Pan Asia Bank managed to generate one of the highest returns on equity amongst banks in the country, although, the general economic slowdown adversely impacted the SME sector, giving rise to a steep rise in Non Performing Loans across the industry.

To arrest the rising NPLs the regulator intervened with tighter policies which, while ensuring stability in the market, limited growth opportunities that the Bank could have taken advantage of. The caps on lending rates are expected to be reviewed, once the financial institutions meet the stipulated reduction in lending rates and credit flows normalise during the year. The conservative approach to growth and risk adopted in the previous year served the Bank well, although Loans and Advances book grew by only Rs.3.53 billion in the year under review.

Loans and Advances

The Bank maintained its cautious approach towards new lending by opting for secured lending as opposed to extending unsecured loans. Although negligible portfolio growth was recorded, Pan Asia Bank managed to grow its books under high yielding assets along with a shift in credit policy of cautionary lending. As a result, credit quality of the Bank showed a marked improvement.

Pan Asia Bank is the first in Sri Lanka's banking industry to introduce a special loan scheme 'Sammana' for pensioners six years ago. The Sammana Pension Loan Scheme enables a pensioner to divert his/her pension to Pan Asia Bank and obtain a loan of upto Rs. 4 million, without need for guarantors. In an era where retirees were largely being considered as a liability by the society and overlooked by the financial sector, Pan Asia Bank came forward to offer the Sammana loan scheme specially for economically viable purposes. This product continued to perform well during the year under review.

Designed especially for state sector employees of the Ceylon Electricity Board, Sri Lanka Ports Authority and Sri Lanka Telecom, the pioneering 'Swabhimana' Personal Loan from Pan Asia Bank offers loans from Rs. 100,000 up to Rs. 5 million against their salaries and gives them flexibility in choosing repayment periods of up to 12 years. The facilities are granted against salaries which are remitted to the Bank by the relevant state entities. There was a strong positive response to this product during the year.

Deposits

Despite prevalence of a climate of economic slowdown and policy uncertainty, deposit base recorded a moderate growth of Rs. 3.9 billion in 2019. The main reason for fairly low growth in deposits was the poor business confidence in the country and the Bank's conscious decision to reduce reliance on large deposits carrying high interest rates to minimise unexpected shocks as well as to minimise adverse impact on the bottom-line. Accordingly, the deposit growth in 2019 was mainly supported by Retail and SME segments.

Retail Banking

The Bank maintained a strong thrust on its retail banking products during the year under review. The performance of the branch network in retail banking business was impressive. During the year, we leveraged on the 'Together We Rise' call to action for staff to pull together as one unit to surmount the extraordinarily challenging operating conditions.

SMEs

A weak 2018 economy had already impacted the SME sector, which came under pressure yet again during 2019, when the economy weakened even further, after Easter Sunday attacks. In such unfavourable economic conditions, the Bank switched mode to sustain portfolio and monitor Non Performing Loans. The Bank's gross NPL ratio rose by 87 basis points in 2019. The newly formed Board Recoveries committee made a significant contribution to maintaining reasonable NPLs for the Bank. As a Retail and SME driven financial institution, the Bank's profitability depends on the strong performance of SMEs, but since the SME sector was particularly vulnerable in 2019, less emphasis was placed on growth of business from that segment, while strengthening revenue from retail operations and putting greater attention on key parameters such as low cost deposits. The legal process for SME loan recovery is tedious and this aspect should be addressed by the legal system in order to bring down NPLs.

Nevertheless, Pan Asia Bank continued to boost SMEs through sustainable finance as is evidenced by the Bank winning the 'Global Climate Partnership Award' from the Global Climate Partnership Fund (GCPF) for the sustainable finance initiatives.

Pawning

The Bank continued to offer the gold loan product as part of its portfolio to meet customer demands in a certain segment that prefers this product while also delivering higher margins for the Bank. Although the Bank offers competitive rates, it has put in place safe buffers to absorb price fluctuations.

Corporate Banking

The Corporate segment of the advances portfolio contracted due to weak economic activities and pressure on liquidity. Apart from the above, upward revision of interest to maintain margins further contributed to contraction in asset portfolio. Some facilities were out priced for freeing up the funds for retail and SME advances which are fetching relatively high margins.

Deposit portfolio followed the same momentum due to deterioration of market liquidity and CBSL rate ceiling effect during latter part of the year. However, several new relationships were established focusing on fee based income to improve the bottom line. Work flow processes of the department were realigned to improve the synergy and efficiencies.

Trade Finance Drive

The trade finance team made a concerted effort to diversify the import business which was largely concentrated on vehicle import business during past several years. A team of experts was established mainly to have a greater focus on Colombo Bazaar area. New relationships were also established from other potential regions as well.

Although these efforts paid substantially to improve the bottom line, desired targets were not achieved due to slow down in trade business with weak economic activities.

Correspondence Banking Relationships

Several new relationships were established in European and Asian countries to improve trade and remittance business. Rebates were negotiated to improve the foreign exchange income to a greater extent.

Credit Cards

Pan Asia Bank credit cards continued to offer true value to cardholders throughout the year by focusing on both customer needs and wants alike. Accordingly, apart from supporting customers' lifestyle wants such as discount offers, Pan Asia Bank credit cards also continued to offer practical financial management tools such as Installment Payment Plans (IPP) and Balance Transfers (BT) to help them better manage their day to day finances.

A range of Installment Payment Plans offered throughout the year immensely helped cardholders to commit to big ticket expenses such as school fees, hospital bills, insurance premiums etc. with minimal impact on their monthly cash-flows. Similarly Pan Asia Bank's 'Balance Transfer facility which allows cardholders to pay off their accumulated Credit Card debt in full over a specific time period, under one of the lowest interest rates, enabled cardholders to save up to 40% on their interest cost. Further, the facility to pay off the credit card balances transferred from other banks in monthly installments paved the way for cardholders to get rid of their long standing debts which they were carrying at a high interest cost. Thus, Pan Asia Bank continued to empower cardholders by providing them practical tools to manage their finances in a prudent manner.

Leasing

Pan Asia Bank has a quality leasing portfolio of Rs. 8.63 billion. As loan recovery times in leasing are faster than loans to SMEs, which could sometimes take up to four years despite valuable collateral in hand. During 2019, leasing activity was slow, since the vehicle market was impacted due to the Government discouraging imports and introducing levies to stabilise the balance of payments position.

Customer Service

As a Bank that is strongly committed to understand and fulfill customer requirements with faster service, innovative solutions and most importantly utmost customer convenience, a range of steps were taken during the year under review to enhance customer experience. Accordingly, the Kegalle and Moratuwa branches were relocated during the year to offer greater accessibility and convenience to customers. Further, the operations of the Maharagama branch were further expanded with the launch of 365 day and 24/7 Self Banking Centre.

During 2019, another noteworthy step was taken to enhance the customer experience by introducing a new model titled 'Together We Rise' across the branch network. This model requires four teams to work together at every branch to provide an efficient and a proactive service to customers. Upto 30th November 2019, these teams had carried out as many as 14,000 promotional campaigns across the country with the intention of creating a higher awareness level and also to take the Bank closer to the hearts and minds of the target population.

Customer Engagement Activities

The Bank continued to pay close attention to creating opportunities for the Bank to interact and engage with customers by arranging a range of events throughout the year. Accordingly, key events such as the 'Sammana Garu Saru' Carnival and Children's Day celebrations were held at branches as well as outside venues which were patronised by a large gathering of customers.

Information Technology

The Bank continued to leverage on its state-of-the-art technology platforms to offer customers an efficient and top quality service. During 2019, Pan Asia Bank was awarded the latest ISO 27001 certification for information security management which was a testament to the Bank's commitment to standardise its processes to protect customer data and enhance privacy.

Marketing Strategy

During the year under review, Pan Asia Bank's marketing efforts were focused on improving the awareness levels with regard to products and corporate presence, support business objectives and enhance engagement with key stakeholders.

To achieve the aforementioned goals the Bank executed a number of mass media campaigns such as 'Gini Poli' campaigns to promote Champion Saver and several tactical campaigns to promote products such as pawning, leasing, credit cards etc.

The Bank's courteous and professional teams remained focused on generating quality business leads especially for retail products such as credit cards, leasing facilities and personal loans. ran loan and sammana loan schemes were marketed aggressively during the year mainly via street promotions and direct mail campaigns.

Business Review

A series of promotions were undertaken during the 2019 year to boost the Bank's presence as well as attract new customers. Some of those promotional activities are given below;

- Avurudu Deposit promotion
- Credit Card promotions
- 7-day bonanza to promote Installment Payment Plans
- Save 100% on interest promotion
- Promotions for new born babies at hospitals and maternity clinics
- Avurudu Ulela events at selected branches
- An average of 50 monthly Pawning mobile vehicle campaigns and about 25 monthly Sammana branch level campaigns throughout the year
- In commemoration of World Children's Day, Pan Asia Bank connected with customers and their families by organising 11 children's carnivals across its 11 regions, spanning the entire island through the months of October and November. The Colombo Central and Super Grade Area Carnival was held at the Bishops College Auditorium in the presence of the Director/ CEO of Pan Asia Bank as the chief guest, along with other corporate management members, staff, customers and their families who participated in the fun-filled event. A number of gifts and certificates were distributed amongst the children on the occasion. The mega carnival witnessed the participation of over 500 children eager to take part in every activity. A total of 1,000 participants were present for the carnival.

Marcom

Marketing Communications (Marcom) plays a key role in the Bank's brand building efforts. The Bank continued to maintain visibility across traditional and digital media to create awareness about Pan Asia Bank. To further enhance the effectiveness of the marketing communication efforts, the Bank strengthened its focus on digital marketing activities to enhance customer engagement.

Further a range of social media promotions were used to proactively reach out to the potential customers where they could simply send their contact details to the Bank, which allowed direct contact with the customer to offer the financial solutions they require.

Key Product Offerings

Champion Saver

Higher returns with unlimited withdrawals

CHAMPION
SAVER
Savings Account

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

Salary Saver

Enjoy the best rewards on your salary!

PAN ASIA
SALARY
SAVER

- Attractive interest rates
- Credit Card with no joining or annual fee

Daskam

Bonus deposit for every deposit you make

PAN ASIA
10 DASKAM
Children's Savings Account

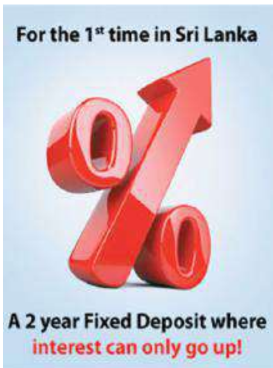
- Get an additional 10% deposit added on top of every deposit you make until the child reaches 12 years of age
- Attractive interest rate on the total balance

Mithuru MAX

The Children's Savings Account that offers amazing gifts

PAN ASIA
MITHURU
MAX
Children's Savings Account

- Attractive gifts based on the account balance
- Special gifts for Year 5 Scholarship winners



Rising FD

An investment that leaves no room for regret

PAN ASIA
RISING
FIXED DEPOSIT

- Guarantees a minimum interest rate at the time of placing the deposit with the possibility for it to be further increased every 6 months

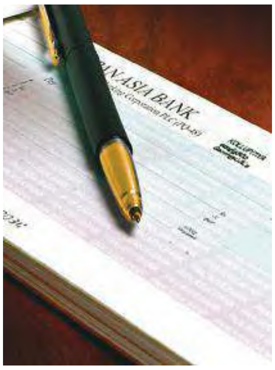
Blue Chip Money Market Savings Account

Higher returns even on your short-term funds

PAN ASIA
BLUECHIP
MONEY MARKET SAVINGS ACCOUNT

- Ability to link with current accounts via sweep facility
- High interest rate calculated daily and credited monthly

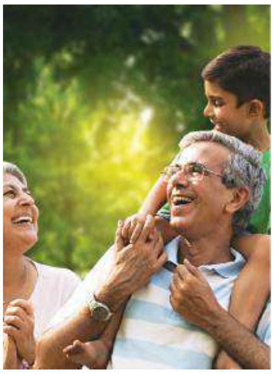
Key Product Offerings



Current Accounts

Experience everyday convenience

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



Sammana

A special package of a guarantor free loan and a savings account for retired Government & Central Bank Employees

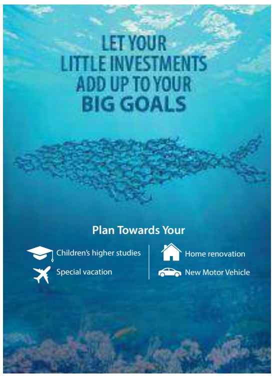
Sammana

- A higher interest rate for savings deposits
- Loan facility of up to Rs 4,000,000/-
- Repayment period up to 10 years
- Ability to repay until 75 years of age
- Ability to obtain an advance against the pension payment

Credit Cards

Amazing savings on your interest charges

- Free of charge balance transfers at interest rates as low as 15.75%
- No joining fees or hidden charges



Target Investment Plan

The investment plan that lets you save in monthly installments

PAN ASIA TARGET INVESTMENT PLAN

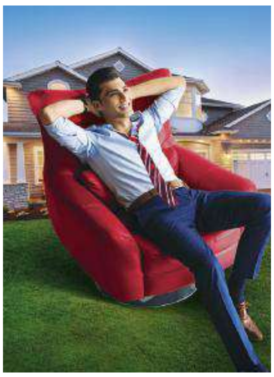
- Make deposits in monthly installments
- Attractive high interest with guaranteed value at maturity

Pawning

Highest value for your Gold

PAN ASIA RAN LOAN

- Maximum value
- Assured security for gold

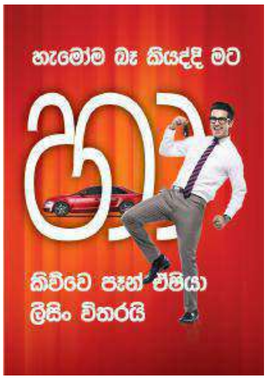


'Nivasa' Home Loans

Live like a king under your own roof

PAN ASIA NIVASA Home Loan

- Attractive repayment schemes for salaried professionals
- Hassle-free documentation handling



Budget Leasing

Stretch your affordability

BUDGET+ LEASING

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

'Aspire' Education Loans

Unleash the power of knowledge

PAN ASIA ASPIRE EDUCATION LOANS

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

SME Credit Facilities

Help your business thrive

- Competitive interest rates
- Fast and courteous service

Personal Loans

Get what you deserve, now

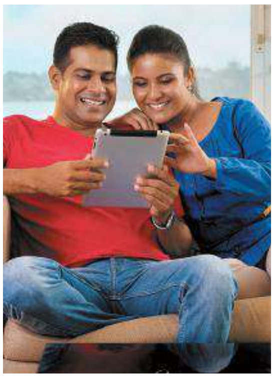
PAN ASIA PERSONAL LOANS

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

Debit Card

Global shopping card with greater security

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



Internet Banking

For a cutting-edge banking experience

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

Branch Network

1. JAFFNA DISTRICT
Chunnakam
Jaffna
Nelliady

2. KILINOCHCHI DISTRICT
Kilinochchi

3. VAVUNIYA DISTRICT
Vavuniya

4. TRINCOMALEE DISTRICT
Trincomalee

5. ANURADHAPURA DISTRICT
Anuradhapura
Kekirawa

6. PUTTALAM DISTRICT
Chilaw
Dankotuwa
Puttalam
Wennappuwa

7. KURUNEGALA DISTRICT
Kuliyapitiya
Kurunegala

8. MATALE DISTRICT
Dambulla
Galewela
Matale

9. POLONNARUWA DISTRICT
Kaduruwela

10. BATTICALOA DISTRICT
Batticaloa
Kattankudy

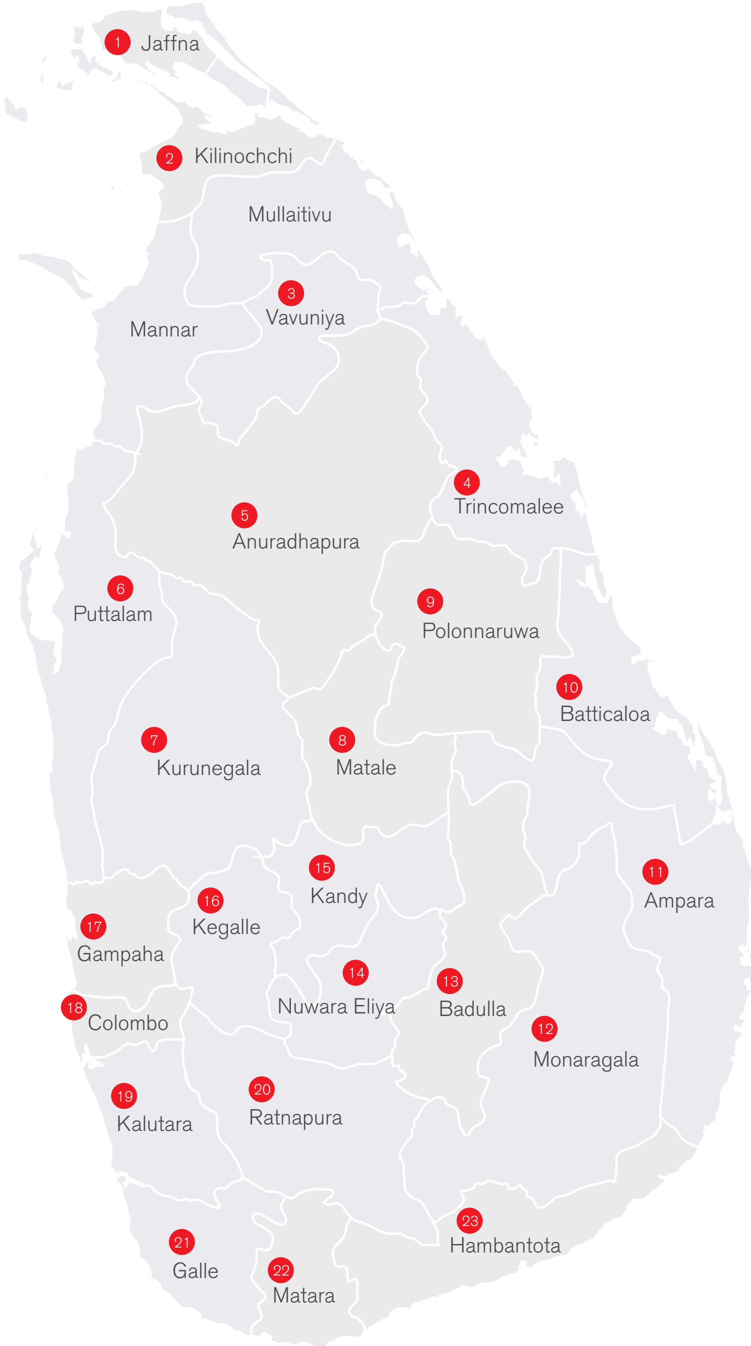
11. AMPARA DISTRICT
Akkaraipattu
Kalmunai

12. MONARAGALA DISTRICT
Monaragala

13. BADULLA DISTRICT
Badulla
Bandarawela

14. NUWARA ELIYA DISTRICT
Hatton

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



16. KEGALLE DISTRICT
Kegalle
Mawanella
Warakapola

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

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

19. KALUTARA DISTRICT
Horana
Kalutara
Panadura

20. RATNAPURA DISTRICT
Balangoda
Embilipitiya
Ratnapura

21. GALLE DISTRICT
Ambalangoda
Galle
Hikkaduwa

22. MATARA DISTRICT
Akuressa
Matara
Weligama

23. HAMBANTOTA DISTRICT
Ambalantota
Tangalle

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Akkaraipattu	060	Kaiyoom Complex Building, No. 280, Main Street, Akkaraipattu	Ampara	067-4924071	067-2279576	Weekdays : 9.00 AM to 4.00 PM
Akuressa	072	No. 54, Matara Road, Akuressa	Matara	041-4935855	041-2284677	Weekdays : 9.00 AM to 4.00 PM
Ambalangoda	041	No. 103, Galle Road, Ambalangoda	Galle	091-4943166	091-2258066	Weekdays : 9.00 AM to 4.00 PM
Ambalantota	053	No. 155/1, Tissa Road, Ambalantota	Hambantota	047-4931850	047-2225056	Weekdays : 9.00 AM to 4.00 PM
Anuradhapura	032	No. 49, Main Street, Anuradhapura	Anuradhapura	025-4976777	025-2234763	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Badulla	045	No. 22A, Bank Road (Lower Kings Street), Badulla	Badulla	055-4976777	055-2225771	Weekdays : 9.00 AM to 4.00 PM
Balangoda	062	No. 84, Barns Rathwatte Mawatha, Balangoda	Ratnapura	045-4928310	045-2289081	Weekdays : 9.00 AM to 4.00 PM
Bambalapitiya	009	No. 329, Galle Road, Colombo 04	Colombo	011-4374055	011-2506825	Weekdays : 9.00 AM to 4.00 PM
Bandarawela	048	No. 340/1A, Badulla Road, Bandarawela	Badulla	057-4976777	057-2233554	Weekdays : 9.00 AM to 4.00 PM
Battaramulla	063	No. 123C, Pannipitiya Road, Battaramulla	Colombo	011-4343260	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
Borella	031	No. 996A, Maradana Road, Colombo 8	Colombo	011-4374207	011-2696461	Weekdays : 9.00 AM to 6.00 PM
Chilaw	036	No. 58, Colombo Road, Chilaw	Puttalam	032-4976777	032-2224756	Weekdays : 9.00 AM to 4.00 PM
Chunnakam	061	No. 92, Dr. Subramaniyam Road, Chunnakam	Jaffna	021-4923422	021-2241889	Weekdays : 9.00 AM to 4.00 PM
Colombo Gold Centre	078	No. 48 GF & 53 UF, Colombo Gold Center, Central Super Market, Pettah	Colombo	011-4061241	011-2339383	Weekdays : 9.00 AM to 4.00 PM
Dam Street	019	No. 22, Dam Street, Colombo 12	Colombo	011-4374130	011-2346052	Weekdays : 9.00 AM to 4.00 PM
Dambulla	049	Jayalanka Building, Kandy Road, Dambulla	Matale	066-4928970	066-2284844	Weekdays : 9.00 AM to 4.00 PM
Dankotuwa	083	No. 17 and 19, Nattandiya Road, Dankotuwa	Puttalam	031-4937130	031–2265790	Weekdays : 9.00 AM to 4.00 PM
Dehiwala	015	No. 104, Galle Road, Dehiwala	Colombo	011-4374077	011-2730624	Weekdays : 9.00 AM to 4.00 PM
Embilipitiya	038	No. 49, New Town Road, Embilipitiya	Ratnapura	047-4976777	047-2261624	Weekdays : 9.00 AM to 4.00 PM
Galewela	071	No. 201, Kurunegala Road, Galewela	Matale	066-4929970	066-2288320	Weekdays : 9.00 AM to 4.00 PM
Galle	025	No. 32, Old Matara Road, Galle	Galle	091-4976777	091-2226835	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Gampaha	011	No. 95, Colombo Road, Gampaha	Gampaha	033-4976777	033-2220048	Weekdays : 9.00AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Gampola	030	No. 29, 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-Operative Square Building, Hatton	Nuwara Eliya	051-4932040	051-2225665	Weekdays : 9.00 AM to 4.00 PM
Hikkaduwa	084	299/C, Galle Road, Pannamgoda, Hikkaduwa.	Galle	091-4944956	0912274084	Weekdays : 9.00 AM to 4.00 PM
Homagama	076	No. 381, High Level Road, Homagama	Colombo	011-4385740	011-2098484	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Horana	077	No. 95, Ratnapura Road, Horana	Kalutara	034-4941060	034-2266566	Weekdays : 9.00 AM to 4.00 PM
Ja-Ela	066	No. 71, Negombo Road, Ja-Ela	Gampaha	011-4344166 011-4344149	011-2232824	Weekdays : 9.00 AM to 4.00 PM
Jaffna	037	No. 570, Hospital Road, Jaffna	Jaffna	021-4976777	021-2221485	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Kadawatha	026	No. 143/H, 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
Kaduwela	081	No. 508/4, Avissawella Road, Kaduwela	Colombo	011-4328295	011-2538552	Weekdays : 9.00 AM to 4.00 PM

Branch Network

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
Kalmunai	042	No. 100 & 104, Batticaloa Road, Kalmunai	Ampara	067-4976777	067-2225590	Weekdays : 9.00 AM to 4.00 PM
Kalubowila	047	No. 46A, S D S Jayasinghe Mawatha, Kalubowila	Colombo	011-4374254	011-2828338	Weekdays : 9.00 AM to 4.00 PM
Kalutara	033	No. 219/3, Galle Road, Kalutara South	Kalutara	034-4976777	034-2221258	Weekdays : 9.00 AM to 4.00 PM
Kandy	005	No. 123, D S Senanayake Veediya, Kandy	Kandy	081-4976777	081-2232994	Weekdays : 9.00 AM to 4.00 PM
Kandy City Centre	044	L1-5A, Lower ground floor, Kandy City Centre, No. 5, Dalada Veediya, Kandy	Kandy	081-4951034	081-2205776	Weekdays : 9.30 AM to 6.00 PM Saturday : 9.30 AM to 6.00 PM Sunday :10.00 AM to 6.00 PM
Kattankudy	057	No. 365, New Kalmunai Road, Kattankudy	Batticaloa	065-4926901	065-2248468	Weekdays : 9.00 AM to 4.00 PM
Katugastota	020	No. 57, Kurunegala Road, Katugastota	Kandy	081-4946135	081-2500362	Weekdays : 9.00 AM to 4.00 PM
Kegalle	027	No. 107, Main Street, Kegalle	Kegalle	035-4976777	035-2221018	Weekdays : 9.00 AM to 4.00 PM
Kekirawa	067	No. 91 & 93, Main Street, Kekirawa	Anuradhapura	025-4928934	025-2264598	Weekdays : 9.00 AM to 4.00 PM
Kilinochchi	043	No.161, Kandy Road, Killinochchi	KiliNo.chchi	021-4925952	021-2280075	Weekdays : 9.00 AM to 4.00 PM
Kiribathgoda	054	No. 67, Makola Road, Kiribathgoda	Gampaha	011-4376061	011-2911041	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM Sunday : 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
Kollupitiya	003	No. 450, Galle Road, Colombo 03	Colombo	011 - 4667022	011-2301150	Weekdays : 8.00 AM to 8.00 PM Saturday : 8.00 AM to 8.00 PM Sunday : 8.00 AM to 8.00 PM
Kotahena	014	No. 215A, George R De Silva Mawatha, Colombo 13	Colombo	011-4374066	011-2346066	Weekdays : 9.00 AM to 4.00 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
Kuliyapitiya	046	No. 74 Kurunegala Road, Kuliyapitiya	Kurunegala	037-4943733	037-2284141	Weekdays : 9.00 AM to 4.00 PM
Kundasale	058	No. 248, Digana Road, Kundasale	Kandy	081-4951644	081-2424624	Weekdays : 9.00 AM to 4.00 PM
Kurunegala	012	No. 22, Suratissa Mawatha, Kurunegala	Kurunegala	037-4976777	037-2221731	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Maharagama	023	171/1, High Level Road, Maharagama	Colombo	011-4374163	011-2838397	Weekdays : 8.00 AM to 8.00 PM Saturday : 8.00 AM to 8.00 PM Sunday : 8.00 AM to 8.00 PM
Malabe	035	No. 410/2, Athurugiriya Road, Malabe	Colombo	011-4374218	011-2744405	Weekdays : 9.00 AM to 4.00 PM
Matale	039	No. 165, Trincomalee Street, Matale	Matale	066-4976777	066-2223007	Weekdays : 9.00 AM to 4.00 PM
Matara	013	No. 45B, Anagarika Dharmapala Mawatha, Matara	Matara	041-4976777	041-2231362	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Mawanella	082	No. 300, Kandy Road, Mawanella	Kegalle	035-4935291	035-2246140	Weekdays : 9.00 AM to 4.00 PM
Minuwangoda	069	No. 42, Veyangoda Road, Minuwangoda	Gampaha	011-4335770	011-2295929	Weekdays : 9.00 AM to 4.00 PM
Monaragala	059	No. 25, Bus Stand Road, Monaragala	Monaragala	055-4929312	055-2277223	Weekdays : 9.00 AM to 4.00 PM
Moratuwa	024	No. 517, Galle Road, Rawathawatte, Moratuwa.	Colombo	011-4374174	011-2641354	Weekdays : 9.00 AM to 4.00 PM
Narahenpita	021	No. 526, Elvitigala Mawatha, Colombo 05	Colombo	011-4374141	011-2368667	Weekdays : 9.00 AM to 4.00 PM
Nawala	079	No. 162, Nawala Road, Nugegoda	Colombo	011-4322814	011-2853043	Weekdays : 9.00 AM to 4.00 PM
Negombo	010	No. 199, 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	021-3734879	Weekdays : 9.00 AM to 4.00 PM
Nugegoda	008	No. 132C, High Level Road, Nugegoda	Colombo	011-4374044	011-2828228	Weekdays : 9.00 AM to 6.00 PM Saturday : 9.00 AM to 1.00 PM
Old Moor Street	018	No. 314, Old Moor Street, Colombo 12	Colombo	011-4374099	011-2392897	Weekdays : 9.00 AM to 4.00 PM

Branch Name	Branch Code	Address	District	Telephone No	Fax No	Opening Hours
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
Peradeniya	051	No. 767, 769 & 769/11,Sirimawo Bandaranayake Mawatha, Kandy	Kandy	081-4951180	081-2232441	Weekdays : 9.00 AM to 4.00 PM
Pettah	004	No. 64, Keyzer Street, Colombo 11	Colombo	011-4374022	011-5363652	Weekdays : 9.00 AM to 6.00 PM 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
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	032-4929663	032-2267967	Weekdays : 9.00 AM to 4.00 PM
Rajagiriya	006	No. 468, Kotte Road, Rajagiriya	Colombo	011-4374033	011-2866823	Weekdays : 9.00 AM to 4.00 PM
Ratmalana	050	No. 446, Galle Road, Ratmalana	Colombo	011-4374261	011-2738840	Weekdays : 9.00 AM to 4.00 PM
Ratnapura	007	No. 37, Bandaranayake Mawatha, Ratnapura	Ratnapura	045-4976777	045-2231848	Weekdays : 9.00 AM to 4.00 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
Thalawathugoda	068	No. 351/E, Pannipitiya Road, Thalawathugoda	Colombo	011-4344650	011-2796016	Weekdays : 9.00 AM to 4.00 PM
Trincomalee	073	No. 459, Dockyard Road, Trincomalee	Trincomalee	026-4925525	026-2225700	Weekdays : 9.00 AM to 4.00 PM
Vavuniya	034	No. 14, 2nd Cross Street, Vauniya	Vavuniya	024-4976777	024-2225444	Weekdays : 9.00 AM to 4.00 PM
Warakapola	070	No. 139, Kandy Road, Warakapola	Kegalle	035-4928777	035-2267544	Weekdays : 9.00 AM to 4.00 PM
Wattala	016	No. 218, Negombo road, Wattala	Gampaha	011-4374088	011-2945104	Weekdays : 9.00 AM to 4.00 PM Saturday : 9.00 AM to 1.00 PM
Weligama	085	No. 204, Hettiveediya, Weligama.	Matara	041-4933116	041-2252595	Weekdays : 9.00 AM to 4.00 PM
Wellawatte	029	No. 135, Galle Road, Colombo 06	Colombo	011-4374196	011-2362399	Weekdays : 9.00 AM to 6.00 PM
Wennappuwa	028	No. 6, Chilaw Road, Wennappuwa	Puttalam	031-4934870	031-2249556	Weekdays : 9.00 AM to 4.00 PM
World Trade Centre	001	Level 2, East Tower, World Trade Center, Echelon Square, Colombo 01	Colombo	011-4976777	011-2346053	Weekdays : 9.00 AM to 4.00 PM

Correspondent Banks

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

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

3. PERU
Banco Wiese Sudameris

4. CHILE
Banco Santander Chile

5. BRAZIL
Banco ABN Amro Real SA

6. IRELAND
Danske Bank A/S

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

8. FRANCE
Commerzbank AG
Union De Banques Arabes ET Francaises

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

10. LUXUMBERG
Commerzbank AG

11. SWITZERLAND
Habib Bank AG Zurich

12. GERMANY
American Express Bank GMBH
Deutsche Bank AG
Landesbank Hessen – Thueringen Girozentrale
Sparkasse Essen
Standard Chartered Bank AG
Joh. Berenberg, Gossler UND CO. KG
Commerzbank AG

13. DENMARK
Danske Bank A/S

14. ITALY
Intesa Sanpaolo S.P.A
Banca Lombarda E Piemontese S.P.A.
Banca Popolore Friuladria S.P.A.
Banca Popolare Di Vicenza Scparl
Cassa Di Risparmio Di Carrara
Cassa Di Risparmio DI Padova E Rovigo S.P.A.
Banka ubae S.P.A

15. AUSTRIA
Volksbank Wien AG

16. SLOVENIA
Bank Austria Creditanstalt D.D.

17. CZECH REPUBLIC
HVB Bank Czech Republic A.S

18. SWEDEN
Danske Bank AS, Sverige Filial

19. HUNGARY
Raiffeisen Bank ZRT

20. SERBIA
Unicredit Bank SRBIJA A.D

21. ROMANIA
HVB Bank Romania SA

22. EGYPT
Mashreq Bank Cairo

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

24. TURKEY
ICBC Turkey Bank AS
Turkiye Garanti Bankasi A.S.

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

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

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

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

29. JORDAN
Standard Chartered Bank

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

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

32. BAHRAIN
Standard Chartered Bank

33. QATAR
Standard Chartered Bank
Mashreq Bank
Doha Bank

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

35. OMAN
Standard Chartered Bank

36. SEYCHELLS
Bank of Ceylon

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

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.
Mizuho Bank Ltd.

40. NEPAL
Himalayan Bank Ltd.
Laxmi Bank Ltd.
Standard Chartered Bank Nepal Ltd.

41. RUSSIA
International Moscow Bank

42. BANGLADESH
Bank Asia Ltd.
Standard Chartered Bank
Islamic Bank Bangladesh Ltd.
Mercantile Bank Ltd.

43. 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

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

45. MALAYSIA
Deutsche Bank (Malaysia) Berhad
Standard Chartered Bank Malaysia Berhad
HSBC Bank (Malaysia) Berhad

46. SINGAPORE
Calyon.
Commerzbank AG,
DBS Bank Ltd.
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 (Singapore) Ltd.
Citibank N.A.
Union De Banques Arabes ET Francaises - Singapore
HSBC Limited

47. CAMBODIA
ANZ Royal Bank of Cambodia Ltd.

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

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

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

51. PHILIPPINES
CitiBank

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

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

54. JAPAN
Bank of Tokyo Mitsubishi UFJ Ltd.
Commerzbank AG
National Bank of Pakistan
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 Ltd.
Iyo Bank Ltd.
Chiba Kogyo Bank Ltd.
Shizuko Bank Ltd.

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

56. SOLOMON ISLANDS
Pan Oceanic Bank

57. NEW ZEALAND
ANZ National Bank Ltd.

Corporate Social Responsibility Report

Harnessing the passion, knowledge and participation of its employees in the realisation of social, cultural and community-improvement activities is one of the important objectives of Pan Asia Bank. Hence, entrenching its credentials as a Truly Sri Lankan Bank, Pan Asia Bank delivers a range of community projects that benefit the environment and enhances lives and extend a sense of togetherness and hope.

Community

Sustaining its reputation as a responsible corporate citizen, Pan Asia Bank accelerated its Corporate Social Responsibility (CSR) projects in the sphere of Education, which forms a key pillar of its CSR strategy. The Bank conducted a slew of projects at 29 rural schools in the areas of the northern region, central region, eastern region, southern region and north western regions under the patronage of the respective Pan Asia Bank branches in those areas.

Under these initiatives, the Bank successfully improved educational facilities in the following manner;

- Improving sanitation facilities of schools
- Donation of Library equipments and cupboards
- Refurbishment of Classrooms
- Wiring work and cleaning
- Colour-washing school buildings
- Donation of Sports equipment
- Infrastructure improvement and networking system developments
- Supply of drinking water with overhead tanks and water filters
- Construction of lavatories
- Refurbishment of library facilities
- Donation of sound systems

Supporting Victims of Terrorist Attacks

During the year, the Bank reached out to victims of the tragic Easter Sunday to help them cope with the tragedy in the immediate aftermath. Swiftly responding to the needs of the most affected in the recent tragic Easter Sunday attacks in the country, Pan Asia Bank's Negombo branch joined hands with the Red Cross Society of Negombo to organise a donation drive to provide the victims of Katuwapitiya, which lies in close proximity to the branch. Pan Asia Bank donated a variety of dry rations, drinking water, and other urgently needed items to victims of Katuwapitiya, for whom lives changed in an instant on that fateful Sunday. The much-needed dry rations donated by the Bank on the request of the Red Cross Society of Negombo eased the immediate needs of the victims.

Gratitude to Senior Citizens

Dedicated to the wellbeing of pensioners, Pan Asia Bank initiated the 'Sammana Garu Saru' Carnival, a first-of-its-kind in the industry with the intention of giving back to the pensioner community. The inaugural event was held in Galle attracting over 500 participants who immensely appreciated and enjoyed the event along with their close family members. These events were filled with entertainment items as well as free health check-ups and a range of shopping opportunities.

The Sammana Garu Saru second event was organised in Kurunegala where more than 1,100 pensioners and over 250 of their grandchildren participated. This reflects the growing customer base for the Bank's Sammana product and its usefulness to this often-overlooked segment of society.

Association of Professional Bankers 31st Anniversary Convention

Pan Asia Bank engages with the industry by supporting various events and during 2019, the Bank sponsored the 31st Anniversary Convention of Association of Professional Bankers.

SME Workshop

Pan Asia Bank partnered with the National Chamber of Commerce Sri Lanka yet again to conduct the third consecutive Small and Medium Enterprises (SME) workshop for SMEs based in North Western and Central Provinces during the year. Pan Asia Bank's SME customers from the selected areas participated in the workshop titled 'Entrepreneurship & Business Planning', where Mr.Gayan Jayathilake, Assistant Director of NIBM, provided valuable insights and training for the participants. At the conclusion of the workshop, all participants were awarded a certificate by the National Chamber of Commerce Sri Lanka. The Bank also sponsored several SME award shows during the year.

Environment

Climate change is an inescapable reality and Pan Asia Bank remains strongly committed to extend its support to address this pivotal issue that affects the whole society.

Green Financing

Pan Asia Bank through its business activities has been actively promoting green financing amongst its customer base, which will not only benefit the environment and the country but also empowers green businesses to establish themselves in a unique niche.

As a part of its green initiatives, Pan Asia Bank's Ambalanthota Branch provided financial assistance to green papaya farmers at Beragama village equpping them with latest drip irrigation solutions. This funding boosted the capability of farmers supplying green papaya to exporters. Accordingly, a Forward Sales Agreement was signed between the exporter, Sungrow Lanka and the farmers under which all farmers would benefit from a stable purchase price during a specific period as agreed with the exporter. By advising both parties and facilitating a mutually-beneficial arrangement and by extending the funding necessary to adopt the latest drip irrigation solutions, the

Ambalanthota Branch demonstrated the Bank's strong commitment to green lending. Pan Asia Bank is confident that such collaborations create a perfect opportunity to generate long term sustainable economic benefits to uplift the living standards of grassroot communities while simultaneously promoting sustainable techniques.

In recognition of the contribution made in this space, Pan Asia Bank was awarded the prestigious 'Global Climate Partnership Award' by The Global Climate Partnership Fund (GCPF), one of the world's largest climate funds. This award recognises outstanding performance and impact across categories such as capacities and skills, institutional capacities and green lending offerings, as well as outstanding energy efficiency or renewable energy projects. Pan Asia Bank officials accepted the accolade at an award ceremony held in Tbilisi, Georgia on 13th June 2019.

The Central Bank of Sri Lanka recently unveiled a Roadmap for Sustainable Finance in Sri Lanka at the Sustainable Banking Network Global Meeting of the International Finance Corporation (IFC). In line with this, Pan Asia Bank expects to aggressively finance projects that are climate-friendly and socially inclusive. The Bank's efforts in this regard will undoubtedly help build a more resilient, sustainable green economy.

Human Capital

Our people are critical to our success and we have made a commitment to build and develop their career enabling them to deliver the desired results and thrive for excellence. In order to achieve this, we have created an environment where our employees are given the opportunity to learn and grow within the organisation, feel appreciated, empowered to share their views and able to fulfill their potential.

The Bank's Human Resources strategy was strengthened and a clear framework was put in place during the year to assist in achieving the Bank's strategic goals. The efficacy of the laid-down HR strategies could be evidenced as we were able to achieve several key HR initiatives during the year.

The main priority was to establish a high performance-driven culture while improving the services, processes and the output. Much effort has taken to embed the corporate culture and the values within our people and to make them aware that building relationships with our customers would guarantee a continuance of performance and a sustainable future of a service-rendering organisation. We believe that it's the trusted relationships that matter and such relationships could only be built by the people. In this highly dynamic and competitive environment, we believe the progress so far made by the Bank is due to a result of this relationship building with customers and introduction of a performance driven culture within the organisation.

The steps taken to establish the performance driven culture was realised with the introduction of the "Together We Rise" model where a system was introduced to evaluate the performance of the entire branch network. The commitment, the expertise and the skills of our people were well displayed at the time of implementing and execution of this model. This process will be a unique way of all stakeholders of the business taking part towards achieving the Bank's expected results by way of relationship strengthening. Equal opportunities will be given to all branch staff to show their achievements which will help them improve their self confidence and develop a winning mentality. Each member in the business chain becomes a stakeholder for the growth of the Bank where their performance will be continuously monitored and rewarded accordingly.

The Bank was faced with the challenge of finding a suitable and effective way to measure performance of the staff in the business for several years and finally succeded in introducing this unique system in 2019.

In order to support the entire process and to align with the Bank strategies, team HR had to play a vital role.

Talent Acquisition and Opportunities Provided for Young Graduates and College Leavers

Pan Asia Bank has become a talent magnet in the nation's banking industry, attracting both experienced professionals and young executives and graduates on account of its brand identity as an agile, nimble, fast-growing and forward-thinking organisation. As a direct result, the Bank has been fortunate to have a steady pool of applicants from which to recruit promising candidates. Pan Asia Bank has an extremely young workforce, with average age of employees between 21-24 years.

In 2019, the Bank hired 22 management trainees and 245 young talents to strengthen various areas in the Bank.

All new hires go through an initial induction before placing them in their relevant position. The management trainees receive a 360-degree evaluation and a comprehensive training over one-and-a-half years and are groomed to be future leaders to ensure there is a robust talent pipeline in place. Exposure given to them will take them through all the business verticals to gain exposure in all facets of banking business, culminating with placements in leadership positions. In this manner, a substantial talent pool has been nurtured to support expansion of branch operations in the future. The training programme also facilitates development of future leaders by identifying high performers and then fast-tracking their career growth in the organisation.

Internal Mobility Strategy

In order to be in line with its policy of developing and giving the available opportunities firstly for internal talents before external candidates, the Bank advertised all available vacancies internally and people were given the opportunity to apply for the relevant position enabling them to be exposed to new career openings. In 2019, the Bank appointed 15 branch managers internally and most other vacancies were filled internally including some of the senior roles depending on the skills and the competencies they have to occupy such positions. This reflects the skilled professionals housed in the Bank, which makes it easy to deploy them across the Bank at short notice. This is an ideal opportunity for

employees to enhance their skills and knowledge by expanding their exposure into various areas of the Bank providing scope for job enrichment. Those who were recruited externally were only to specialised departments like Legal, Audit, Finance and IT.

At the same time, 285 existing staff was promoted during the year out of which 4 positions were to the Corporate team as growth opportunities. Thus, the Bank is able to retain staff with crucial experience and talents.

Performance Management

The Bank's online performance management system has raised productivity levels and opened up direct channels of communication between senior management and staff. The performance management process comprises KPI-setting early in the year, a mid-year review and a year-end review, with employees' self-assessment playing an important role. This system has enhanced transparency and fairness.

Aligning the Reward System to Evolving Requirements

Compensation plays an integral role in attracting and retaining the most talented and capable staff within the Bank. The Bank has taken efforts to align the compensation to growing external and internal expectations thereby reviewing the reward structure took place during the year and salary scales of Executives to Chief Manager grades were restructured to be competitive with industry levels and to boost morale of the staff despite a challenging year. The Bank has put in place a strong team of professionals in every role after evaluating their strengths and weaknesses which has enhanced the contribution they make to the Bank's profitability.

Further, the Bank has already established a close link between employee compensation and their performance. Thereby a Performance Bonus was paid during 2019 to all eligible staff for the Bank's previous year performance, depending on their individual performance rating.

Increasing the training allowance of Junior Executive Trainees, giving a medical allowance to all confirmed staff, increasing the limits of staff Housing and Vehicle loans to all grades, introducing a station allowance to Junior Executive grades in branches and enhanced life insurance limits to Manager and below grades were some of the financial benefits given to the staff during 2019.

Aligning HR Policies with Business Needs

In order to concentrate and secure the values and beliefs in all people related processes from recruitment to performance management, learning and development to remuneration by way of reviewing the prevailing policies to be in line with the dynamic changes in the environment and to suit the new development in the industry. The Bank was able to review the Staff Movement Policy, Recruitment and Selection Policy, Promotion Policy, Remuneration Policy, Whistle Blowing Policy, Succession Planning Policy, Staff Attendance and Leave Management Policy, Staff Housing and Vehicle Loan Policy and the Policy for Staff on Fixed Term Contract during 2019.

Increased Focus and Investment in Learning and Development

The HR function continues to support business by coaching and training staff to prepare them to keep pace with the change. Pan Asia Bank proactively invests in learning and development to improve knowledge levels of employees, bridge skills gaps for better productivity and enhanced employee satisfaction thereby to achieve strategic goals and to facilitate continuous improvement across the Bank.

In this scenario, the Bank embedded a host of training and people development projects during 2019.

Human Capital

Certification Programmes for Frontline Staff

The Certification Programmes targeting the frontline staff to build specialisation in Credit and Branch Operations continued to build competency in our frontline junior staff.

- Credit Certification – Level II
  This programme aims at developing credit related competencies, sharpening credit knowledge and sharing the best practices in SME lending among the identified promising credit officers of the Bank. The participants, who are currently engaged in lending function in branch network and regional offices, have embarked on a well-structured training which is supported by Senior Credit Managers of the Bank and industry experts/mentors. The programme focuses on developing essential competencies needed to successfully identify, assess and structure profitable loans in the Bank.

  The training methodology comprised self-paced practical training under experienced credit managers, workshops, presentations and knowledge sharing sessions. The 155 participants of the Level II programme include the successful participants certified in the level–I programme, credit officers with above 2 years credit exposure, selected Branch Managers and the Management Trainees batch of 2018.

- Branch Operations Certification
  This certification programme was inclusive of training sessions, workshops etc. conducted by our own expertise and external trainers followed by written examinations and an interview. 50 staff underwent structured training and 31 successful participants were certified as Branch Operations Officers during 2019.

Building Leadership Development and Future Leaders

The Bank seeks to foster management and leadership development and as a result several leadership development programmes for the following key talents are currently under way.

- Management Trainee (MT) Programme
  The Management Trainee Programme of Pan Asia Bank is part of the Bank's broad policy of building such a pool of future leaders and is designed to enrich the managerial structure of the Bank by attracting, inducting, developing and engaging those who have the right potential to become future leaders of the Bank. The programme is aimed at qualified university graduates as well as individuals already employed in related functions and interested in management careers within the banking arena.

  The Bank recruited 22 graduates during 2019 and the induction and orientation programme is spread over 18 months to groom them to take up challenges in future. This programme will enable identifying the personnel with the ability to be fully fledged business managers based on the identification of positions and groom them with the necessary skills and competencies required to take up responsibility for effectively and efficiently managing businesses and divisions.

- Successors for Key Management Personnel (KMP) and other Senior Leadership positions
  32 Managers/Senior Managers have completed structured leadership development training during March 2019.

- Manager Skill Development Programme
  25 identified Assistant Managers have completed leadership development training during 2019.

- Job Shadowing programme
  25 promising staff members are currently undergoing competency-based development training.

Risk-based Internal Auditing Programme

Risk-based Internal Auditing (RBIA) programme was initiated recently to further enhance the overall risk management framework within the Bank. The programme primarily focused on identifying inherent risk factors associated with our business and implementing effective systems, processes and practices that could assure effective risk management across the Bank in keeping with the defined risk management policy.

Social Environment Management System (SEMS)

This programme was initiated to educate our branch managers and the credit officers on the responsibility of screening all lending through this system. social and environment concerns play an important part in society and all corporate citizens have a binding responsibility as well as an obligation to align business

operations accordingly. However, social and environment risks are inherent in any business operation. social and environment risks such as environmental pollution, hazards to human health, safety and security, impacts on communities and threats to biodiversity and cultural heritage etc. are all potential risks that are associated with most financial transactions and investments and hence an enhanced understanding of these risk factors has become an important facet in credit risk management in order to safeguard the interests of the lending institution.

Further through this programme the Bank managed to identify 'SEMS Trainers' to share out the knowledge among our other colleagues going forward and to support implementation of 'SEMS' in the Bank.

E-Learning Modules

Demonstrating its willingness to adapt into the emerging new digital workplace, Pan Asia Bank recently introduced an all new learning platform, E-learning where knowledge, skills and know-how are delivered to the staff through the use of internet technology. This is a revolutionary new approach to learning where the learner has total control over what, when and where he or she learns.

Under this revolutionary move, in 2019, the Bank has introduced 3 product courses, namely; Mithuru Max, Leasing and Rising FD as well as a course on Foreign Accounts and Transactions via the E-learning platform in attractively packaged modules.

These E-learning modules have been released already to the staff on a grade-wise basis. What's unique in this learning platform is the feature where the product knowledge content and a MCQ questionnaire are available under each course enabling the learner to learn as well as evaluate the knowledge they gain on the subject matter. The management intends offering similar learning modules via the E-learning platform through which the Bank hopes to reach out to a wider cross section of learners.

Train the Trainer Programme

Since more than 90% of the in house trainings were conducted by our own internal trainers this programme was conducted to strengthen capacities amongst these trainers. Now they have been entrusted with the areas in which they are specialised to conduct training to the staff.

Outbound Training for Sales Team

The Sales outbound training was conducted for all the sales staff attached to Central Sales Unit to improve the team bonding and performance culture. This was facilitated by a leading training institute in Sri Lanka. 137 sales staff personnel underwent this one day activity based training in October 2019, which improved their morale and performances.

Guest Lectures

In keeping with the Bank's learning culture, a novel concept was introduced by organising a series of 'Guest Lectures' with a view to keeping the staff updated on important skills, ranging from business practices to trends, techniques, concepts and norms useful to their official and personal lives.

Accordingly, a short guest lecture, spanning 1-1 ½ hours in duration is conducted by a renowned individual on a chosen topic on a monthly basis.

Voice of Pan Asia

This was initiated in view of creating a platform to showcase the public speaking and communication skills and organised in partner with Pan Asia Bank Toastmasters Club. This was conducted in two categories as Table Topic Contest & Prepared Speech Contest.

This was held in two stages to select the best speakers and the evaluations were done by the external toastmasters. 16 finalists contested for the Prepared Speech and 6 finalists contested for the Table Topic category.

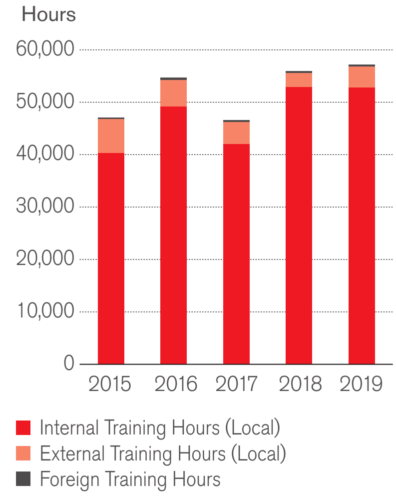
Human Capital

Representing the Bank in Quiz competitions

The Bank's quiz team was witnessed at the CMI Quiz Challenge organised by the Chartered Management Institute where the Bank was able to obtain the third Place for Banking & Finance sector. The team also participated at the Master Mind Quiz organised by the Colombo Stock Exchange, the Inter Bank Compliance Quiz organised by the Association of Compliance Officers of Banks (ACOB) and Central Bank of Sri Lanka and the quiz organised by the Clearing Association of Bankers and shown significant improvement.

Continuous increase in training hours

During the year under review, the Bank's employees underwent extensive internal, external and foreign training and development programmes covering the highest number of training hours in the Bank's history. This enhanced the technical and soft skills of the people. The breakdown of training in 2019 is depicted below:



During the year, the Bank has trained over 1,600 employees, covering 57,217 man hours which is an increase of over 1,300 hours compared to the previous year in wide range of functional areas, including Credit, Operations, Risk Management, Selling Skills, Branch Banking Operations, People skills, Product Knowledge and Soft Skill

Total Training Hours

Training Category	2015	2016	2017	2018	2019
Internal Training Hours (Local)	40,292	49,183	41,980	52,886	52,792
External Training Hours (Local)	6,478	5,042	4,270	2,661	3,993
Foreign Training Hours	277	451	374	360	432
Total Training Hours	47,047	54,676	46,624	55,907	57,217

Development under a novel programme, viz., Job Shadowing programme where a talent pool was formulated, comprising officers from Manager to Junior Executive Grades, who are willing to take up challenging assignments in the identified critical or specialised areas.

Effective Employee Relations

This involves maintaining healthy employer-employee relationships which contribute towards strong engagement, enhanced productivity, motivation and improved morale.

The Bank focuses on resolving issues by encouraging the employees to deal with openly and with mutual trust and respect. In 2019, several opportunities were given to staff to actively engage and directly communicate with the CEO and the Corporate Management to address the staff concerns in the following forums.

Joint Consultative Council (JCC)

The JCC has made a valuable contribution towards fostering enhanced employee relations over the years. The staff were able to address their concerns and matters of mutual interest and are encouraged to participate in the decision making process of the Bank though positive relations formed between the employees and the management. This would increase communication, goodwill, commitment and cooperation of all concerned for the long-term benefit of the Bank and the employees.

The JCC representatives constitute staff from the grades of Assistant Manager and below while the Corporate and Senior Management members participate in the meetings by invitation. During the year, two JCC meetings were held. The matters raised were discussed effectively and the Bank was able to give prompt actions to address and resolve the problems.

Coffee with CEO

In order to receive direct feedback about new initiatives, ongoing projects and performance issues, CEO invites front line staff and staff who has been recognised as achievers for their contributions made for a meeting with him. About four meetings were held this year and the meetings were well attended, suggestions/concerns were made and decisions were taken then and there. The cordial conversation which often occurs over a snack and a coffee provides an effective platform for both

parties to be genuine in their thoughts and remarks.

Employee Engagement Activities

To provide a work environment where every employee is engaged remains high on our agenda. We have realised that engaging employees is key to retaining our talent. Therefore each year the Bank organises several employee engagement activities as it helps to retain talent, nurture employees and build strong, lasting teams while improving productivity. The Bank keeping its traditions organised several employee engagement initiatives during the year 2019 as illustrated and all employees take interest and look forward to participate in these events.

Corporate Quiz

'Pan Asia Bank Intellectuals 2019', the annual inter branch/department quiz competition was held in July for the fifth consecutive year at Golden Rose Hotel Boralesgamuwa, amidst the participation of a large number of staff members numbering over 1,000. Teams from over 100 branches and departments participated in the keenly contested quiz. The quiz competition was structured in a manner that helps the participants to refresh their memory on key principals covering banking operations thereby enabling them to perform more effectively on the job. Also the event keeps in line with the Bank's commitment in promoting a learning culture within the Bank whilst fostering team spirit, camaraderie and knowledge sharing.

The quiz competition was followed by an exciting social where participants had the opportunity of catching up with the peers from other branches and departments of the Bank.

Vesak Dhamma Sermon

A special Dhamma Sermon was organised in May 2019, to celebrate the sacred Vesak festival – one of the most hallowed of Buddhist festivals. A meaningful sermon was delivered by an erudite monk who clearly outlined the teachings of the Buddha on exploring ways of achieving happiness in life.

Yoghurt Dansala

In keeping with its stature as a bank that upholds rich Sri Lankan traditions, Pan Asia Bank stepped forward to mark the Poson festival with a 'Yoghurt Dansala' (offering Yoghurt as alms), which was held in June in front of the Bank's Head Office. Held with the participation of a large number of staff members, the Dansala received an overwhelming response from the public and was appreciated by all as a meritorious act that reflects the true teachings of Lord Buddha.

Newsletter

'Pan Asia Connect', the Bank's quarterly newsletter continued to keep employees updated on the Bank's activities during the period under review. The Bank's newsletter was published three times during the year 2019.

24th Anniversary Celebrations

The Bank commemorated this significant milestone with its diverse stakeholders in a meaningful manner, giving pride of place to religious rituals. The principal event that marked the anniversary was an all-night Pirith ceremony and was followed by an almsgiving.

Similar religious observances were held for the Hindu, Catholic and Islamic communities with the participation of staff, customers as well as the general public whose support and blessings have been the force behind the Bank's phenomenal success.

Human Capital

Seasonal Fairs in April and December

Pan Asia Bank stepped forward to spread holiday cheer during April and December by transforming the basement car park at the Head Office into a 'festive wonderland' with a unique spectrum of seasonal goodies and home wear including decorations, candles, gifts, christmas delights, clothes and more.

With the participation of several leading suppliers who showcased an array of seasonal delicacies and products at discounted rates together with exciting banded offers especially for the staff.

Long Service Awards

Felicitation ceremony was organised to recognise 44 long standing employees who had served the Bank for over 10, 15 and 20 years respectively during this year. The ceremony was held at the Marino Beach Hotel in November 2019 to honour those employees who contributed to make Pan Asia Bank the dynamic and innovative organisation it is today. The recipients were awarded with gold sovereign, cash tokens and certificates to recognise the immense contribution towards the growth and stability of the Bank through their experience, commitment and loyalty.

Dinner Dance

The Bank's annual Dinner Dance held under the theme 'Electric Grooves' turned out to be a truly electrifying affair with great food, exciting music and even better company. Held at the Waters Edge Hotel in November last year with the participation of over 700 staff members, the event was one of the grandest celebrations ever to be held by the Bank with plenty of festive cheer and great vibes and paved the perfect setting to celebrate the dawning of the New Year.

Complete with an extravagant gala dinner buffet with outstanding entertainment, the night was truly amazing and made even more exciting by the electrifying performances of the two bands and the DJ music as they performed some of the latest and greatest hits, drawing loads of enthusiastic dance lovers on to the dance floor.

Electric Grooves organised by the Sports Club not only helped everyone to celebrate the successes of the past year but also usher in the New Year with great expectations.

Christmas Carols

The choristers of Pan Asia Bank rang-in the Christmas season with a heart-warming spread of Christmas Carols, held under the theme: 'Peace on Earth' in December 2019 at the Bank's Kollupitiya branch.

In keeping with its long-standing tradition, Pan Asia Bank Choristers joined millions of people from around the world to invoke the spirit of Christmas with a spectacular show of Christmas Carols, reflecting the peace, joy and warmth associated with Christmas.

A large number of staff members from around the country joined in with family, friends and acquaintances in wishing all Sri Lankans 'A Merry Christmas'.

Family Christmas Carnival

The Family Christmas Carnival organised by the Bank's Sports Club opened doors for unlimited fun for both kids and parents with an array of spectacular entertainment activities for all to enjoy. The event which was held at the Waters Edge Hotel in December 2019 was the perfect setting to celebrate the spirit of the season as Christmas bells were beginning to ring and the New Year was approaching.

With a host of fun-filled activities including face painting, merry-go-round, kids train, kids water pool with boats, hammer-bell challenge, magic show, juggling clown, stilt walkers and so much more, it was super fun for over 126 kids who also received an exciting gift with loads of food and drinks, making it a truly entertaining occasion.

Sports Highlights

Chess

In 2019, for the first time, the Bank took part in the Mercantile and Government Services International Rating Chess Championships 2019, a much-anticipated competition in the Chess calendar where all rated players in the country are eager to compete. Two staff members from the Bank's debut Chess team were qualified to receive an 'International FIDE Chess Rating' for their noteworthy performance at these tournaments. The Fédération Internationale des Échecs (FIDE) or the World Chess Federation rating is a ranking used in the game of Chess, estimating a player's strength, based on his or her performance versus other players.

Netball

For the first time in the history of Pan Asia Bank, our Netballers have been successful in clinching the 1st Runner up title under C division at the Mercantile League Netball Championships held during 2019. The event was conducted by the Mercantile Netball Association covering five categories, namely Division A, B, C, Mixed Division and Veterans Division. The Team Pan Asia was indeed a force to be reckoned with as they showcased during the keenly contested tournament. In addition, the Bank's team also became the winner in the category for the 'Best Attire' among all divisions which was awarded under the special awards category.

Further, for the first time, the Bank was able to field a mixed-team at this year's tournament where fourth position was secured covering all divisions. The Bank's netball team also participated in Mercantile Netball Knockout Tournament during 2019 and was able to achieve the second Runner up in the B- Division, Cup category. Apart from that achievement, the team also became the winner for showcasing its 'Team Spirit' under the special awards category. This award becomes more special as the achievement came across all divisions.

Rugby

The Rugby team of Pan Asia Bank powered their way into the Quarter Finals of the 49th edition of the Mercantile Rugby Football 'Sevens' conducted by the Mercantile Rugby Football Association which was held at the CR&FC grounds.

Mercantile Rugby Football 'Sevens' is the premier rugby football championship organised for the mercantile sector of the country and conducted under Cup, Plate, Bowl and Shield categories. Playing in the Shield Category, 'Team Pan Asia' with some truly competitive and entertaining action managed to enter the Quarter Finals defeating some of the better known teams.

Tennis

Our Tennis team participated in the Mercantile Tennis Tournament Organised by Sri Lanka Tennis Association during 2019 and has been able to secure the Runner up position in the Women's open singles and be the Winner of Women's open doubles.

Risk Management

Vision and Culture

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

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

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

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

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

Credit Risk

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

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

Credit Risk Management Committee

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

Credit Concentration

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

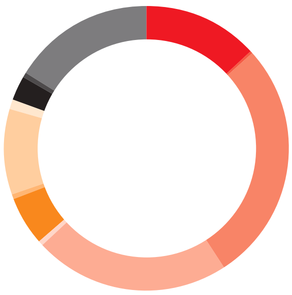
Sector Concentration

The Bank's sector concentration is in par with the widely-accepted norms, risk appetite and regulatory requirements directed by the regulator. Exposure to each sector is closely monitored by the Board Integrated Risk Management Committee against the predetermined limits. Exposures which exceed the predetermined limits are extensively deliberated at the meeting and corrective

Risk Management

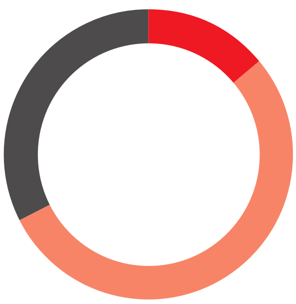
action is taken based on regulations and risk appetite of the Bank. The committee strikes the correct blend of portfolios ensuring least impact on the business when changes taken place in the operating environment.

SECTOR WISE CONCENTRATION



Agriculture, Forestry & Fishing	13.09%
Arts, Entertainment & Recreation	0.26%
Construction & Infrastructure Development	27.52%
Consumption	22.21%
Education	0.58%
Financial Services	5.52%
Health Care, Social Services & Support Services	0.25%
Information Technology & Communication Services	0.34%
Manufacturing	9.80%
Professional, Scientific & Technical Activities	1.06%
Tourism	2.74%
Transportation & Storage	0.59%
Wholesale & Retail Trade	16.04%

SEGMENT WISE CONCENTRATION



Corporate	13.97%
Retail	53.77%
SME	32.26%

GEOGRAPHICAL CONCENTRATION

Central	9.64%
Eastern	2.07%
North Central	2.87%
North Western	4.92%
Northern	1.95%
Sabaragamuwa	3.55%
Sourthern	5.88%
Uva	1.71%
Western	67.41%

Market Risk

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

The categories of market risk of the Bank are:

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

Market Risk Governance

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

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

Value at Risk (VaR)

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

- Historical simulation
- Monte Carlo simulation
- Parametric method

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

Stress Testing

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

Assets and Liabilities Committee (ALCO)

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

Treasury Risk Assessment Committee (TRAC)

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

Treasury Middle Office (TMO)

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

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

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

The Bank will continue to strengthen its Middle Office function in 2020 by further strengthening its market risk and liquidity risk assessment and monitoring activities.

Operational Risk

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

Objectives and Benefits

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

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

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

more advanced approaches to calculate the capital requirements. With streamlined risk management processes the Bank strives for efficient allocation of risk sensitive capital.

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

Philosophy and Principles

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

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

Methodologies and Strategies

For effective monitoring and mitigation of operational risk, the Bank has implemented following methodologies and strategies:

The Management of operational risk comprises;

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

Operational Risk Management Sub Committee

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

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

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

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

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

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

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

Insurance

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

The Business Continuity Plan (BCP)

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

Due Diligence Tests on Activities Outsourced

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

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

Information Security Risk

The Bank recognises that information is a vital asset and how information is managed by achieving and maintaining aspects of Confidentiality, Integrity and Availability (CIA triad). Information security has significant impact on the delivery of critical Banking services and meeting regulatory and compliance requirements.

It is mandatory that information shall be maintained with the required level of confidentiality by enforcing applicable controls to prevent unauthorised access and misuse. Protected information shall be prevented from unauthorised alteration to maintain its integrity. Additionally, information systems and assets must be available when needed to authorised users, particularly during emergencies and times of crisis/disaster by maintaining well-tested Business Continuity Plan (BCP) and Disaster Recovery (DR) plan.

In recognition of the increasing need to protect the Bank's critical business, intellectual and computing resources and in meeting regulatory requirements the Bank has appointed and Information Security Officer (ISO) and implemented the Information Security Strategic Plan.

Pan Asia Bank was awarded the ISO 27001 certification during the third quarter of year 2019 for adopting and implementing global standards and best practices to ensure the effectiveness, efficiency, confidentiality and integrity of its day-to-day IT operations. This certification further strengthens the confidence level of customers and regulators on quality of the Bank's IT and IT security, as well as its ability to manage confidential data and IT assets.

The ISO 27001:2013 certification is the highest international benchmark for information security management, and the world's highest accreditation for information protection and security. The certification has proved the Bank's efforts to comply with local and international regulations regarding data protection, privacy and IT governance.

The Bank is also implementing 'Baseline Security Standards' (BSS) for most of its banking functions as risk control mechanism.

Strategic Risk

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

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

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

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

Reputation Risk

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

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

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

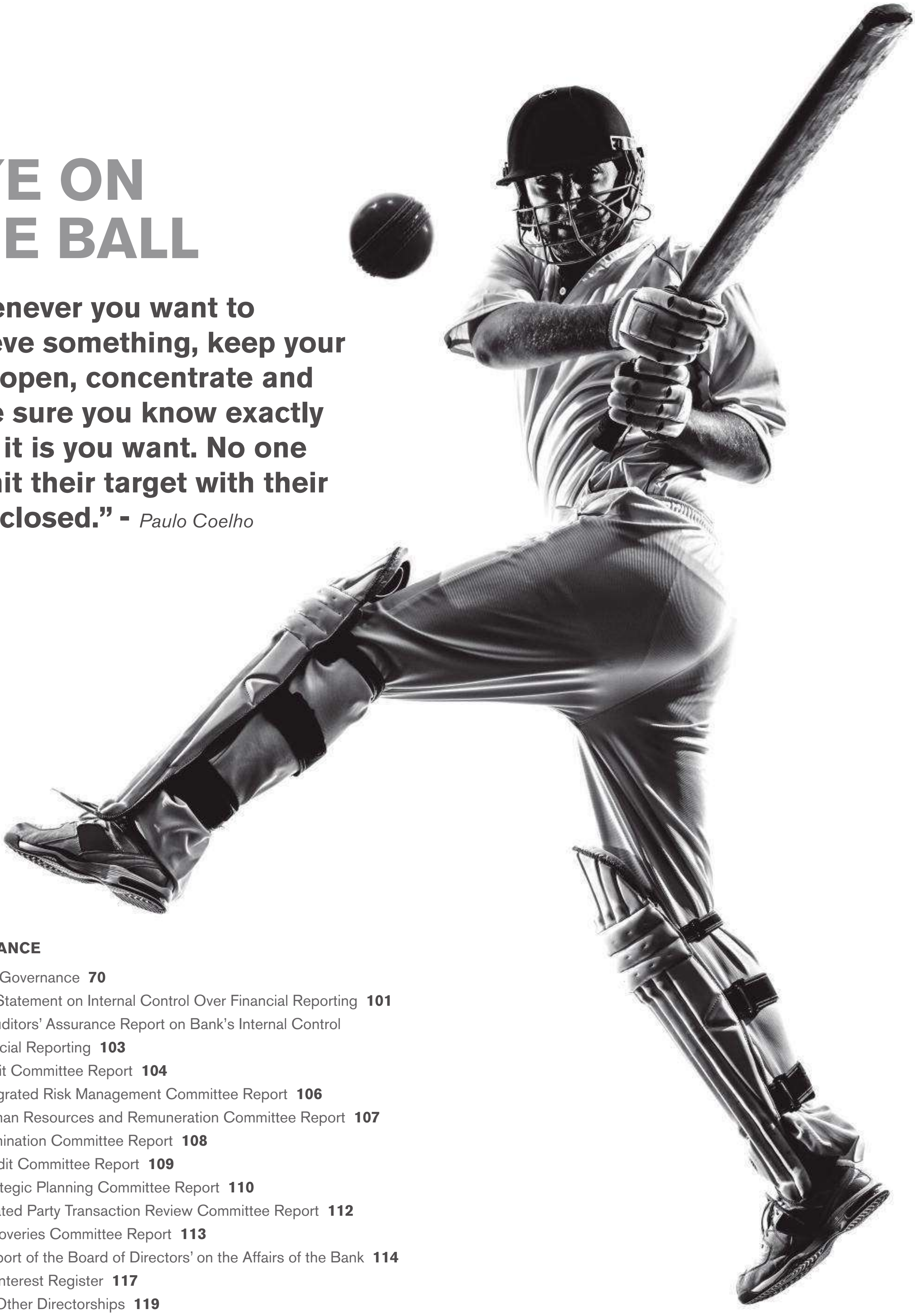
The current risk management tools will be further strengthened by the advance measures to ensure that the actual risk component is well within the tolerable level. The Bank exercises both top down and bottom up approaches in developing new modules, efficient and effective methods to mitigate future risks.

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

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

EYE ON THE BALL

"Whenever you want to achieve something, keep your eyes open, concentrate and make sure you know exactly what it is you want. No one can hit their target with their eyes closed." - *Paulo Coelho*



GOVERNANCE

Corporate Governance

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

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

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

Board Committees

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

Board Audit Committee - Pages 104 & 105

Board Integrated Risk Management Committee - Page 106

Board Human Resources and Remuneration Committee - Page 107

Board Nomination Committee - Page 108

Board Credit Committee - Page 109

Board Strategic Planning Committee - Pages 110 & 111

Board Related Party Transactions Review Committee - Page 112

Board Recoveries Committee - Page 113

Major Steering Instruments on Governance

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

External

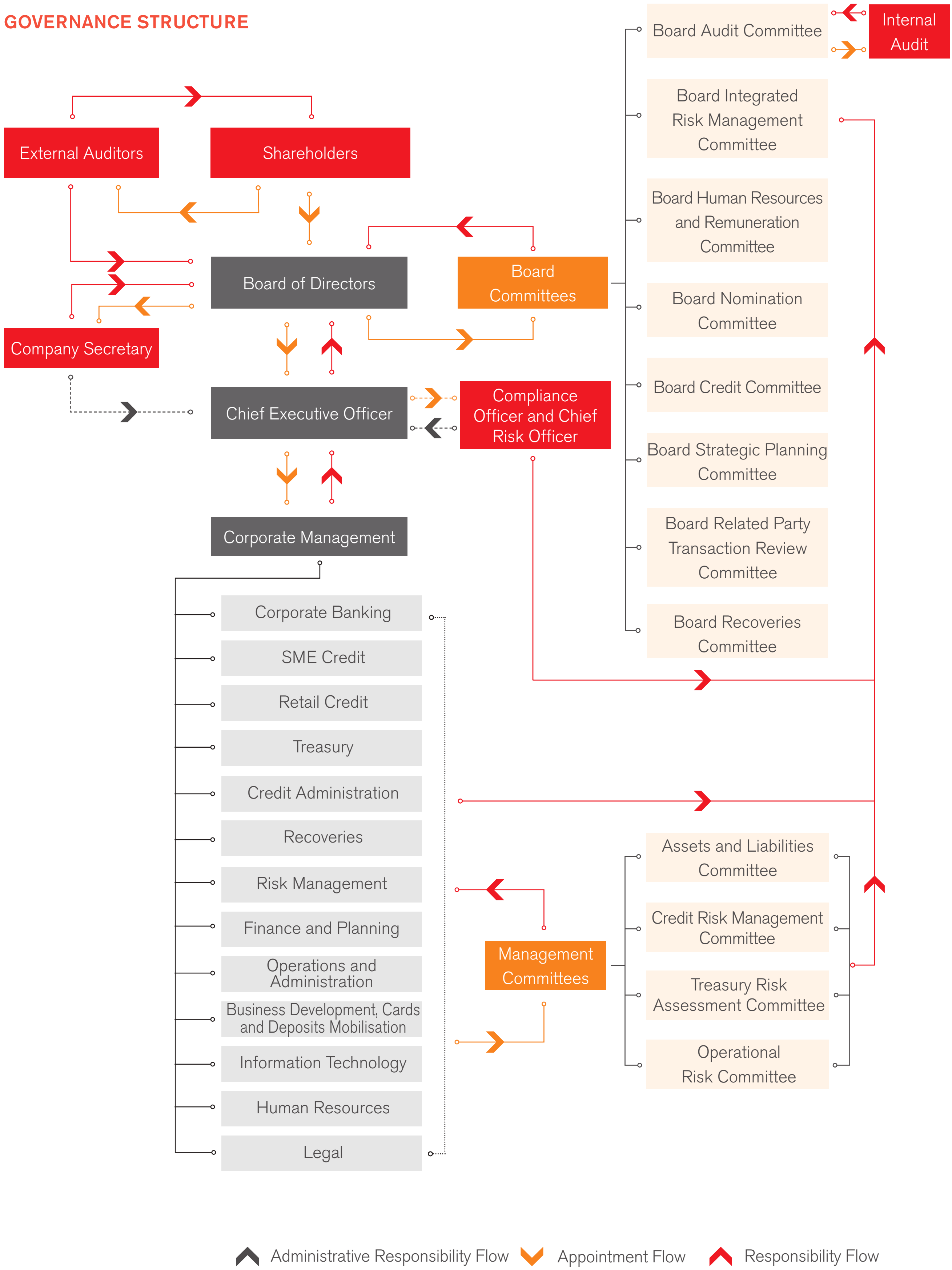
- Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks as amended subsequently
- Banking Act No. 30 of 1988 and Directions, Guidelines and Circulars issued under Banking Act
- Companies Act No. 07 of 2007
- Code of Best Practice on Related Party Transactions issued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

Governance

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

Internal

GOVERNANCE STRUCTURE



Corporate Governance

Regulatory Framework

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

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

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

Messrs Ernst & Young, our External Auditors annually carry out a review of the Bank's compliance with the Corporate Governance Principles specified in Section 3 (1) to 3 (8) of the Banking Act Direction No.11 of 2007 (as amended subsequently) in accordance with the Sri Lanka Standard on Related Services 4400 (SLSRS 4400) and provides a report of factual findings on the extent of Bank's compliance with the said Directions. The External Auditors carried out this procedures in respect of the year 2019 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 External Auditors were also engaged to carry out a review of the Board's Statement on Internal Controls relating to Financial Reporting System of the Bank based on Sri Lanka Standard on Assurance Engagements 3050 (SLSAE 3050) - Revised and their report is given on page 103 of the Annual Report.

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

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

Section	Principle	Degree of Compliance	Remarks
3(1)	**The Responsibilities of the Board**		
3(1)(i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following.		
a.	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	Complied with	The Bank's strategic objectives and corporate values are incorporated in the Board-approved Strategic Plan. These strategic objectives are communicated to relevant staff at regular briefing sessions and discussion meetings and then cascaded down to all levels. The corporate values which are derived from Vision and Mission statements are communicated to all staff via e-mails and at the various meetings and forums.

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	The overall business strategies of the Bank set by the Board in consultation with Corporate Management are focused on promoting sustainability and profitability of the Bank. The Board approved strategic plan containing measurable goals for 2020-2022 period is in place. The business strategy is reviewed on a quarterly basis with updates. The Board approved the annual budget which is derived from the Bank's strategic plan. 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.
c.	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	Complied with	A stringent risk management process has been established covering a whole range of risk stemming from the risk appetite of the Bank. Further, appropriate credit, market, operational, liquidity, strategic, information security and compliance strategies have been adopted across the business and other oversight functions ensuring their functions in line with the agreed risk tolerance.
d.	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	Complied with	A Shareholder Communication Policy approved by the Board is in place.
e.	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with	The Bank has a separate Internal Audit Department which directly reports to the Board Audit Committee. The Board Audit Committee relies on the Internal Audit Department to determine the adequacy and the integrity of the Internal Control Systems and Management Information Systems.
f.	Identify and designate Officers Performing Executive Functions of Licensed Commercial Banks as referred to in the Banking Act Determination No. 03 of 2010 on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks as 'Key Management Personnel' of the Bank.	Complied with	'Officers Performing Executive Functions' as referred to in the Banking Act Determination No. 03 of 2010 on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks have been identified as 'Key Management Personnel' of the Bank.
g.	Define the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel.	Complied with	The Board shares its responsibilities as a team. Depending on specific skills and expertise they are appointed to different Committees to manage the affairs of the Bank. Defined areas of authority, goals and targets have been approved by the Board. The responsibilities and authority of Chief Executive Officer and other Key Management Personnel are also defined.

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Section	Principle	Degree of Compliance	Remarks
h.	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy.	Complied with	Key Management Personnel are present or are called in for discussions at Board Meetings and Board committee meetings as and when the need arises to explain matters relating to their areas. The affairs of the Key Management Personnel are monitored by the Board.
i.	Periodically assess the effectiveness of the Board Directors' own governance practices, including: i) the selection, nomination and election of Directors and Key Management Personnel ii) the management of conflicts of interests and iii) the determination of weaknesses and implementation of changes where necessary.	Complied with	Nomination Committee recommends to the Board on selection, nomination and election of the Directors and the Board thereafter decides on the matter. Self assessment of the Directors are attended to by the Directors annually. The Board assesses the effectiveness of its own governance practices on an annual basis through the Board performance evaluation checklist.
j.	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Complied with	A succession plan for 'Key Management Personnel' is in place. This process will be further strengthened in future.
k.	Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with	The Board Committees on Integrated Risk Management, Related Party Transactions Review, Audit, Human Resources & Remuneration, Nomination, Credit, Strategic Planning and Recoveries meet regularly and the Key Management Personnel attend these meetings to review policies, establish communication lines and monitor progress towards corporate objectives. The minutes of these Committee meetings are tabled at the Board Meetings. The Members of the Corporate Management team attend Board Meetings by invitation to make presentations on their respective areas as an when required.

Section	Principle	Degree of Compliance	Remarks
l.	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with	The Board Secretary furnishes Directors a set of rules with regard to regulatory directions and requirements on their appointment. They are also briefed about developments in the regulatory environment at the Board Meetings to ensure that their knowledge is updated regularly to facilitate effective discharge of their responsibilities. The Compliance Officer submits reports on regulatory requirements to the Board Integrated Risk Management Committee enabling them to identify the regulatory environment. The Chairman, CEO and other Directors maintain a good relationship with the regulators with regard to strategic matters of the Bank while the Compliance Officer maintains effective relationship with the regulator with regard to all Compliance matters.
m.	Exercise due diligence in the hiring and oversight of External Auditors.	Complied with	The Board Audit Committee is responsible for the hiring and oversight of the external auditor. The Audit Committee Charter/Terms of Reference approved by the Board specifies these requirements.
3(1)(ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions.	Complied with	The Chairman and the CEO are appointed by the Board. 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 Board Committee meetings are given on page 100.

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Section	Principle	Degree of Compliance	Remarks
3(1)(iv)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with	Agenda, Minutes and Board Papers are forwarded to the Directors as per the Corporate Governance directive within the stipulated time frame, enabling Directors to submit their views, proposals and observations under any other business at Board Meetings.
3(1)(v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board Meetings, reasonable notice may be given.	Complied with	The Board Meeting Notice and Board Papers are circulated to Directors 7 days prior to the Board Meeting providing all Directors an opportunity to attend.
3(1)(vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' Meetings through an alternate Director shall, however, be acceptable as attendance.	Complied with	The Board Meetings have been duly attended by all the Directors as identified in page 100.
3(1)(vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with	The Company Secretary appointed in line with the stipulated regulatory requirement.
3(1)(viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with	A Board approved policy in this regard is in place. All Directors have access to the advice and services of the Company Secretary.
3(1)(ix)	The Company Secretary shall maintain the Minutes of Board meetings and such Minutes shall be open for inspection at any reasonable time, with reasonable notice by any Director.	Complied with	The Minutes of the Board Meetings are maintained by the Company Secretary. The Directors can inspect the Board Minutes as and when required.

Section	Principle	Degree of Compliance	Remarks
3(1)(x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The Minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board Meetings. Therefore, the Minutes of a Board Meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations (b) the matters considered by the Board (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations (e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and the Board resolutions.	Complied with	The Board minutes contain a summary of data and information used by the Board in its deliberations, decisions and Board resolutions. The Board minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations. The understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted too are contained in the Board minutes. The Minutes and the Board Papers are maintained to provide the details stipulated.

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

Section	Principle	Degree of Compliance	Remarks
3(1)(xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with	The Bank is in compliance with the Capital Adequacy Ratio requirements stipulated by the Central Bank of Sri Lanka and other prudential grounds as at 31st December 2019.
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 72 to 100 of Annual Report.
3(1)(xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually and maintain records of such assessments.	Complied with	Self assessment of each director is performed annually and filed with the Company Secretary.
3(2)	**The Board's Composition**		
3(2)(i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with	08 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	07 out of 08 Directors are Non - Executive Directors hence, this does not exceed one-third of the number of Directors of the Board as identified on page 100.
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 3 Independent Non - Executive Directors on the Board as identified in page 100.
a.	has direct and indirect share holdings of more than 1% of the Bank.	Complied with	No Director holds more than a 1% stake in ordinary voting share capital of the Bank.

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Section	Principle	Degree of Compliance	Remarks
b.	currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3(7) hereof, exceeding 10 percent of the regulatory capital of the Bank.	Complied with	The Bank has not come across any situation as such during the year 2019.
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 2019.
d.	has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a "Close relation" shall mean the spouse or a financially dependent child.	Complied with	The Bank has not come across any situation as such during the year 2019.
e.	represents a specific stakeholder of the Bank.	Complied with	None of the Directors represents a specific stakeholder of the Bank at present.
f.	is an employee or a Director or a material shareholder in a company or business organisation: i) which currently has a transaction with the Bank as defined in Direction 3(7) of these Directions, exceeding 10 percent of the regulatory capital of the Bank; or ii) in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or iii) in which any of the other Directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 percent of regulatory capital in the Bank.	Complied with	None of the Independent Non-Executive Directors meet the criteria of (i), (ii) & (iii) and Independent Non-Executive Directors have been duly identified.
3(2)(v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	Complied with	The Company Secretary ensures that the Alternate Director appointed to represent an Independent Director is also an Independent Director.

Section	Principle	Degree of Compliance	Remarks
3(2)(vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance and resources.	Complied with	The Board considers Nomination Committee recommendation prior to considering the appointment of Non-Executive Directors.
3(2)(vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors.	Complied with	Required quorum is complied with.
3(2)(viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance Report.	Complied with	Disclosed in the Annual Report on page 100 " 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 have 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	There were no Directors appointed to fill casual vacancies during the year 2019.

Section	Principle	Degree of Compliance	Remarks
3(2)(xi)	If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders'.	Complied with	All Director resignations and removals are duly communicated to the relevant regulatory authorities as per Colombo Stock Exchange regulations. Mr. Jayaraja Chandrasekara, resigned from the Board on 12th February 2019.
3(2)(xii)	A Director or an employee of a Bank shall not be appointed, elected or nominated as a director of another Bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank.	Complied with	None of the present Directors of the Bank act as a Director of another Bank. The Directors inform the Board if the Director concerned is appointed, elected or nominated as a Director of another Bank.
3(3)	**Criteria to Assess the Fitness and Propriety of Directors**		
3(3)(i)	The age of a person who serves as Director shall not exceed 70 years.	Complied with	There are no Directors who are over 70 years of age. The Company Secretary maintains the records of the Directors.
3(3)(ii)	A person shall not hold office as a Director of more than 20 companies/ entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied with	As per the declarations provided by the Directors, none of the Directors holds Directorships in more than 20 companies.
3(4)	**Management Functions Delegated by the Board**		
3(4)(i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied with	All delegations have been done by the Board after due consideration.
3(4)(ii)	The Board shall not delegate to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with	All delegations are made in a manner that would not hinder or reduce the Board's ability to discharge its functions.
3(4)(iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with	The Board periodically reviews and approves the delegation arrangements in place and ensures that the extent of delegation addresses is the needs of the Bank whilst enabling the Board to discharge their functions effectively.

Section	Principle	Degree of Compliance	Remarks
3(5)	**The Chairman and Chief Executive Officer**		
3(5)(i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied with	The roles of Chairman and Chief Executive Officer are separated and not performed by the same individual.
3(5)(ii)	The Chairman shall be a Non - Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as 'the Senior Director' with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Complied with	Since the Chairman is only a Non-Executive Director, Mr. Mohan Abeynaike, Non-Executive, Independent Director continued as the "Senior Director". Required Terms of Reference have been approved by the Board.
3(5)(iii)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship including financial, business, family or other material/relevant relationship(s), if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied with	The Directors sign a declaration to this effect and there are no relationships reported.
3(5)(iv)	The Chairman shall: (a) provide leadership to the Board (b) ensure that the Board works effectively and discharges its responsibilities and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with	The Chairman is responsible for conducting of the Board meetings, preserving order and ensuring that the proceedings of the meetings are conducted in a proper manner.
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.

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

Section	Principle	Degree of Compliance	Remarks
3(6)	**Board Appointed Committees**		
3(6)(i)	The Bank shall have at least four Board Committees as set out in Directions 3(6) (ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each Committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc. under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Complied with	The Board has established Committees for an Audit, Nomination, Human Resources & Remuneration, Integrated Risk Management, Credit, Strategic Planning, Related Party Transactions Review and Recoveries. All Board Committees submit minutes to the Board. Each Committee report is published in the Annual Report on pages 104 to 113.
3(6)(ii)	**Audit Committee**		
a.	The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/ or audit.	Complied with	The Chairman of the Audit Committee is a Non-Executive, Independent Director and a Fellow of the Institute of Chartered Accountants of Sri Lanka whose qualifications and experience are disclosed on page 20 of the Annual Report.
b.	All members of the Committee shall be Non-Executive Directors.	Complied with	All four members of the Committee are Non-Executive Directors.

Section	Principle	Degree of Compliance	Remarks
c.	The Committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditors for audit services to be provided in compliance with the relevant statutes (ii) the implementation of the Central Bank of Sri Lanka (CBSL) guidelines issued to Auditors from time to time (iii) the application of the relevant accounting standards and (iv) the service period, audit fee and any resignation or dismissal of the Auditors; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied with	The Audit Committee has made its recommendations on the following; (i) the appointment of the External Auditors and services to be provided are in compliance with the relevant statutes. (ii) the implementation of the CBSL guidelines issued to Auditors from time to time. (iii) the application of the relevant accounting standards. (iv) the service period, audit fee and any resignation or dismissal of the Auditors. Engagement Audit Partner was rotated since March 2019. Further, the Committee ensures that the service period of the engagement of the External Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the Audit before the expiry of three years from the date of the completion of the previous term.
d.	The Committee shall review and monitor the external Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with	The Committee has obtained representations from the External Auditors on their independence, and that the audit is carried out in accordance with Sri Lanka Auditing Standards.

Section	Principle	Degree of Compliance	Remarks
e.	The Committee shall develop and implement a policy on the engagement of an external Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an External Auditors' of non-audit services does not impair the external Auditors' independence or objectivity. When assessing the external Auditors' independence or objectivity in relation to the provision of non-audit services, the Committee shall consider: (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditors and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditors.	Complied with	The Audit Committee Charter includes the specified policy requirements.
f.	The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the Bank's compliance with the relevant Directions in relation to Corporate Governance and the management's internal controls over financial reporting (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations and (iii) the co-ordination between firms where more than one audit firm is involved.	Complied with	The nature and scope of the audit and related engagements are discussed at the Board Audit Committee meetings.

Section	Principle	Degree of Compliance	Remarks
g.	The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the Bank's annual report and accounts and quarterly reports before submission to the Board, the committee shall focus particularly on: (i) major judgemental areas (ii) any changes in accounting policies and practices (iii) significant adjustments arising from the audit; (iv) the going concern assumption and (v) the compliance with relevant Accounting Standards and other legal requirements.	Complied with	The Audit committee has reviewed the Financial information of the bank, in order to monitor the integrity of the Annual and Quarterly Financial Statements prepared with disclosures and the significant financial reporting judgements contained therein. The review focuses on the following: - Major judgemental areas - Any changes in accounting policies and practices - Significant adjustments arising from the audit - Appropriateness of the going concern assumption - Compliance with relevant accounting standards and legal requirements The committee makes their recommendations to the Board on the above on a quarterly basis.
h.	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditors' may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied with	The Committee has met with the external auditors and discussed related matters in the absence of Key Management Personnel. The related discussion minutes are recorded and maintained independently by the Company Secretary.
i.	The Committee shall review the external Auditors' Management Letter and the management's response thereto.	Complied with	The Committee reviewed the external auditors' Management Letter and the management response thereto. The committee reviews the progress and the action plans of outstanding items on an ongoing basis.

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

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Section	Principle	Degree of Compliance	Remarks
k.	The Committee shall consider the major findings of internal investigations and management's responses thereto.	Complied with	Major findings of internal investigations and management's responses thereto are considered by the Committee and also minuted.
l.	The Chief Financial Officer, the Chief Internal Auditors and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied with	The Chief Financial Officer, the Assistant General Manager-Internal Audit and representatives of External Auditors attends monthly committee meetings. The CEO, Corporate and Senior Management personnel attend meetings upon invitation. The Committee met with external auditors independently without the executive management being present on three occasions.
m.	The Committee shall have: (i) explicit authority to investigate into any matter within its Terms of Reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with	The Board Audit committee has: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.
n.	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with	The Audit Committee met 14 times during the year and the committee's conclusions are recorded in the minutes.
o.	The Board shall disclose in an informative way: (i) details of the activities of the Audit Committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings.	Complied with	(i) The details of the Committee are disclosed in the Annual Report, on pages 104 & 105. (ii) Details of attendance by individual Directors on page 100 of the Annual Report.
p.	The Secretary of the Committee shall record and keep detailed Minutes of the Committee Meetings.	Complied with	The Secretary of the Committee is the Assistant General Manager- Internal Audit and records and keeps Minutes of the Committee Meetings.

Section	Principle	Degree of Compliance	Remarks
q.	The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditors.	Complied with	The Whistle Blowing Policy was reviewed and approved by the Committee. The Audit Committee acts as the key representative body for overseeing the Bank's relationship with external auditors.
3(6)(iii)	**Human Resources and Remuneration Committee**		
a.	The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank.	Complied with	The key functions of the Human Resources and Remuneration Committee are disclosed in the Annual Report on page 107 under 'Board Human Resources and Remuneration Committee Report'.
b.	The Committee shall set goals and targets for the Directors, Chief Executive Officer and the Key Management Personnel.	Complied with	The goals and targets for the Directors, Chief Executive Officer and Key Management Personnel are in place.
c.	The Committee shall evaluate the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with	The Committee evaluates the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
d.	The Chief Executive Officer shall be present at all meetings of the Committee, except when matters relating to the Chief Executive Officer are being discussed.	Complied with	The Chief Executive Officer attends all meetings and he was excused when matters relating to him being discussed.
3(6)(iv)	**Nomination Committee**		
a.	The Committee shall implement a procedure to select/appoint new Directors, Chief Executive Officer and Key Management Personnel.	Complied with	Procedures for the selection/appointment of the Directors are in place.

Corporate Governance

Section	Principle	Degree of Compliance	Remarks
b.	The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied with	The Committee considers and recommends the re-election of current Directors to the Board.
c.	The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Chief Executive Officer and the Key Management positions.	Complied with	The duly approved eligibility criteria for the selection (appointment or promotion) to the position of CEO and Key Management positions is in place.
d.	The Committee shall ensure that Directors, Chief Executive Officer and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied with	The 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 and proper persons to hold office. The Nomination Committee ensures that all KMPs are fit and proper persons to hold office in line with the set criteria prior to appointment and necessary affidavits are forwarded to CBSL for approval.
e.	The Committee shall consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Complied with	Succession arrangements for retiring Board of Directors are considered as and when required. New requirements (additional or new expertise) for KMP positions are considered and recommended by the Committee. Succession arrangements for Key Management Personnel are in place. This process will be further strengthened in future.
f.	The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The Chief Executive Officer may be present at meetings by invitation.	Complied with	The Committee is Chaired by a Non-Executive, Independent Director and two Non-Executive, Non Independent Directors. 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 and the Chief Risk Officer. The Committee is supported by Senior Manger II-Credit Risk, Senior Manager-Treasury Middle Office, Manager-Operational Risk & Integrated Risk, Information Security Officer and Chief Manager-Compliance. The Committee invites any Key Management Personnel for participation at the meetings depending on the subject matters in the agenda.
b.	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and group basis.	Complied with	Continuous assessments and monitoring are being carried out on credit, market, liquidity, operational, information security and strategic risks and other contingencies based on pre determined risk indicators and goals/limits, reports are submitted to the Committee for deliberations and corrective actions if required.
c.	The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset and Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with	The Committee reviews reports and minutes submitted by the management committees such as Credit Risk Management Committee, Assets & Liabilities Committee, Treasury Risk Assessment Committee, and Operational Risk Management Committee against pre determined quantitative and qualitative risk limits.
d.	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied with	Risk indicators are reviewed against the risk goals and regulatory limits with adequate deliberations during the Committee meetings and corrective actions are initiated for any deviations.
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with	The Committee had four meetings during the year and deliberations were made on whole risk spectrum encountered by the Bank.
f.	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/ or as directed by the Director of Bank Supervision.	Complied with	The Committee has taken appropriate actions against the officers responsible through Human Resources Department for any failures to identify and monitor specific risks in managing the business of the Bank. No such instances reported during the period under review.

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

Section	Principle	Degree of Compliance	Remarks
3(7)(ii) &(iii)	The Board shall ensure that the Bank does not engage in transactions with Related Parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business. In this context, "more favourable treatment" shall mean and include treatment, including the:	Complied with	A formal policy to enhance the transparency of Related Party Transactions is put in place by Board of Directors. Steps have been taken by the Board to avoid any conflict of interest that may arise when transacting with 'related parties'. Further, the Board ensures that no related party benefits from favourable treatment. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to the similar transactions between the Bank and its unrelated customers. The Board Related Party Transaction Review Committee reviews related party transactions reported to the committee.
a.	Granting of "Total Net Accommodation" to Related Parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction; (i) "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation (ii) The "Total Net Accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such Related Parties in the Bank's share capital and debt instruments with a maturity of 5 years or more.		
b.	Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counter party.		
c.	Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties.		

Section	Principle	Degree of Compliance	Remarks
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.		
3(7)(iv)	The Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied with	Regulatory requirements for related party transactions are properly stipulated in the Policy Document for Related Party Transactions. This policy elaborates the approved securities and limits for such related parties. Any accommodation granted to related party is sanctioned by the Board of Directors with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation.
3(7)(v) a.	Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied with	The Bank follows directions/guidelines issued by all regulatory bodies for related party transactions.
b.	Where such security is not provided by the period as provided in Direction 3(7) (v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.		

Section	Principle	Degree of Compliance	Remarks
c.	Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.		
d.	This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.		
3(7)(vi)	A Bank shall not grant any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	Complied with	No accommodation has been granted to any employee of the Bank on more favourable terms unless under general staff loan scheme applicable for all employees of the Bank.
3(7)(vii)	No accommodation granted by a Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied with	A process is in place. No such instances noted during the period under review.

Section	Principle	Degree of Compliance	Remarks
3(8)	**Disclosures**		
3(8)(i)	The Board shall ensure that: (a) Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and (b) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with	Annual Audited and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.
3(8)(ii)	The Board has made the following minimum disclosures in the Annual Report:		
a.	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with	A statement to this effect is included in the following; Annual Report of the Board of Directors' on the Affairs of the Bank on pages 114 to 116. Directors' Responsibility for Financial Reporting on page 120.
b.	A report by the Board on the Bank's internal control mechanism that confirms that the Financial Reporting System has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with	The Directors' Statement on Internal Controls over Financial Reporting is included in the Annual Report 2019 on pages 101 to 102.
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 2019 on page 103.
d.	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank.	Complied with	Details of the Directors are given on pages 20 & 21 under profiles of the Directors. The aggregate value of Directors' transactions with the Bank has been disclosed in Note No. 44.4 to the Financial Statements on page 217. The aggregate value of the remuneration paid (salaries, fees and benefits) to the Board of Directors (including CEO) is disclosed in Note No.44.3 to the Financial Statements on page 216.

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>51.92</td><td>0.37%</td></tr><tr><td>KMP and Close Family Members</td><td>68.05</td><td>0.49%</td></tr><tr><td>Entities Controlled by Directors, Shareholder owing a Material Interest and Close Family Members</td><td>2,836.20</td><td>20.29%</td></tr></table>
f.	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied with	The aggregate values of remuneration paid to Key Management Personnel (as per CBSL guidelines) during the year are as follows; Short term Benefits - Rs. 119.23 Mn. Retirement Benefits - Rs. 2.04 Mn. The aggregate value of transactions by Key Management Personnel with the Bank as at the year end are as follows; Loans, Advances and Credit Card Balances - Rs. 59.73 Mn. Deposits - Rs. 93.58 Mn.
g.	The External Auditors' 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 122 of the Annual Report under 'Corporate Governance Report'.
h.	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied with	A statement of Directors' Responsibility on Financial Reporting is given on pages 120 and 122 clearly sets out the details of regarding compliance with prudential requirements, regulations, laws and internal controls. There were no instances of material non-compliance to report on corrective action taken during the year.
i.	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Complied with	There were no significant supervisory concerns on lapses in Bank's Risk Management or non compliance with this Direction that have been pointed out by the Director of Bank Supervision and requested by the Monetary Board to be disclosed to the public.

Corporate Governance

Directors' Meeting Attendance – 2019

Name of Director	Board Meetings		Board Audit Committee		Board Credit Committee		Board Integrated Risk Management Committee		Board Human Resources & Remuneration Committee		Board Nomination Committee		Board Strategic Planning Committee		Board Related Party Transactions Review Committee		Board Recoveries Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
Dimuth Prasanna	12	11 *	-	-	14	13	04	02	04	04	07	07	-	-	-	-	11	11
Sarath Rangamuwa	12	11	14	14	14	14	-	-	-	-	-	-	04	04	03	03	11	11
Mohan Abeynaike	12	12	14	14	-	-	-	-	04	04	07	05	04	04	04	04	-	-
Takashi Igarashi	12	12	-	-	-	-	04	04	-	-	-	-	-	-	04	04	-	-
Toyohiko Murakami	12	11	14	10	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nihal Kekulawala	12	12	14	14	-	-	04	04	04	04	-	-	04	03	-	-	-	-
Aravinda Perera	12	12	-	-	14	13	-	-	-	-	07	07	04	04	-	-	11	10
Nimal Tillekeratne	12	12	14	13	14	14	04	04	04	04	07	07	04	04	04	04	11	11
Jayaraja Chadrasekera	01	01	-	-	02	02	-	-	-	-	-	-	-	-	01	01	-	-

* was excused from the Board Meeting to participate a meeting at CBSL.

Present Composition of Directors

Name of the Director	Category
Dimuth Prasanna	Non-Executive, Non Independent Director
Sarath Rangamuwa	Non-Executive, Non Independent Director
Mohan Abeynaike	Non-Executive, Independent Director
Takashi Igarashi	Non-Executive, Independent Director
Toyohiko Murakami	Non-Executive, Non Independent Director
Nihal Kekulawala	Non-Executive, Independent Director
Aravinda Perera	Non-Executive, Non Independent Director
Nimal Tillekeratne	Director/Chief Executive Officer

Directors' Statement on Internal Controls over Financial Reporting

Responsibility

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

The Board of Directors ('the Board') is responsible for the adequacy and effectiveness of the internal control mechanism in place at 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 controls over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal controls over financial reporting taking into account principles for the assessment of internal control system as given in that guidance.

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

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

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 104 & 105.
- 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.
- The Bank adopted SLFRS 9 - 'Financial Instruments' in 2018 which became applicable for financial reporting periods beginning on or after 1st January 2018. During the year, the Bank continued to refine the statistical models used in the computations and the data extraction procedures pertaining to the calculations performed in respect of SLFRS 9. Since adoption of this standard, progressive improvement on processes to comply with new requirements of classification, estimation of expected credit losses

Directors' Statement on Internal Control over Financial Reporting

and disclosure were made whilst, further strengthening of processes will continue to take place pertaining to expected credit loss estimation and financial statement disclosures.

- Adequate training and awareness sessions have been conducted for the Board and the Senior Management with regard to this new standard. Further, the Board ensures that processes and controls are put in place for use of management information systems and validation of information extracted to comply with SLFRS 9.
- The Bank adopted Sri Lanka Accounting Standard - SLFRS 16 'Leases' in 2019 which became effective for financial reporting periods beginning on or after 1st January 2019.
- 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 2019 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 2019 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 103 of this Annual Report.

By Order of the Board

Mohan Abeynaike
Chairman
Board Audit Committee

Dimuth Prasanna
Chairman

Nimal Tillekeratne
Director/Chief Executive Officer

Colombo, Sri Lanka
17th February 2020

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

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

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

We were engaged by the Board of Directors of Pan Asia Banking Corporation PLC ("the Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("the Statement") included in page 101 and 102 of the Annual Report for the year ended 31st December 2019.

Management's Responsibility

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

Our Independence and Quality Control

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

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

Our Responsibilities and Compliance with SLSAE 3050 (Revised)

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

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

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

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

Summary of Work Performed

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

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

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

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

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

Our Conclusion

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

17th February 2020
Colombo, Sri Lanka

Board Audit Committee Report

Composition of the Audit Committee

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

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

Toyohiko Murakami
Non-Executive, Non Independent Director

Nihal Kekulawala
Non-Executive, Independent Director

Sarath Rangamuwa
Non-Executive, Non Independent Director

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

Role of the Committee

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

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

The Committee is empowered by the Board to:

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

Meetings

The committee held 14 meetings during the period under review. Assistant General Manager- Internal Audit functioned as the secretary to the committee. The committee has met with the external auditors thrice without the presence of CEO and Corporate Management personnel during the year and related minutes are recorded by the Company Secretary.

The Chief Executive Officer, Members of the Corporate Management attend the meetings by invitation. Members of the Senior Management of the Bank were invited to participate at meetings as and when required. The proceedings of the Audit Committee meetings are regularly reported to the Board of Directors.

Activities

The committee carried out the following activities.

Financial Statements

The Committee reviewed:

- The effectiveness of the financial reporting system in place to ensure that information provided to the stakeholders is reliable and is in strict adherence and compliance with the requirements of Sri Lanka Accounting Standards (SLFRS/ LKAS) and disclosure requirements.
- The Quarterly and Annual Financial Statements of the Bank prior to approval by the Board.
- Considering the SLFRS 9 implementation, the committee has discussed with the External Auditors to identify the key impact areas and the estimated impacts on the Bank's financial statements of the new standards.
- Assesses the future impacts of the capital requirements and remedial measures to be taken.
- Assessed the impacts of the new tax regulations.

Regulatory Compliance

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

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

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

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

Internal Audit

During the year under review, the Committee reviewed the independence, objectivity and performance of the Internal Audit Department and established a process for periodic assessment of the internal control systems. The annual audit plan for the year was prepared based on a Risk Based Planning methodology for risk assessment of auditable areas. The Committee regularly reviewed and monitored the internal audit coverage of the annual audit plan.

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

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

On periodic basis the committee reviewed the status of implementation of audit recommendations and management rectification actions. During the period, the committee has made special emphasis to address threats, vulnerabilities and follow up on implementation of Information Systems controls to strengthen the Bank's IT systems.

The Committee reviewed the performance appraisal of the AGM-Internal Audit and other senior staff of Internal Audit Department. Periodically the committee assessed the training and development and resource availability within Internal Audit Department to fulfil the audit plan.

External Audit

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

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

The Management Letter of the External Auditors and the responses of the management thereto were discussed, in the presence of relevant business heads and senior management along with the external auditor. The committee further followed up on the rectification actions taken by the management in improving the financial reporting based on the Management Letter of 2018. 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 2020, 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. The Committee also concluded that the internal audit function was effective.

On behalf of the Board Audit Committee

Mohan Abeynaike
Chairman
Board Audit Committee

Colombo, Sri Lanka
17th February 2020

Board Integrated Risk Management Committee Report

Composition of the Committee

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

Nihal Kekulawala
Chairman, Non-Executive, Independent Director

Takashi Igarashi
Non-Executive, Independent Director

Dimuth Prasanna
Non-Executive, Non Independent Director

Nimal Tillekeratne
Director/Chief Executive Officer

In addition to the above members, the Committee comprises Chief Risk Officer, Senior Manager II - 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 Personnel and other senior management personnel to attend the meetings depending on the subject matters under consideration in the agenda.

Responsibilities and Meetings

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

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

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

Functions of the Committee

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

- Regular review of Internal Capital Adequacy Assessment Process (ICAAP) and assessment of the Bank's business strategy, growth plans and governance ensuring risk based capital adequacy.
- Determine and review risk indicators and risk goals on a regular basis on credit, market, operational and all other significant risk areas that the Bank is exposed to.
- Peruse and review activities and progress of under mentioned management committees that have been set up for the management of major risks embedded in the day to day activities of the Bank.

I. Assets and Liabilities Committee (ALCO)

II. Credit Risk Management Committee

III. Operational Risk Management Committee

IV. Treasury Risk Assessment Committee

- Regular review and update of all policies relating to the risk management and the introduction of new risk-related policies and procedures.
- Recommendation of improvements to the Bank's strategy for lending, business expansion and growth, and review mitigating factors for adverse impact on the Bank's overall strategy.
- Extensive deliberation on potential risk arising from various risk drivers and take measures proactively.
- Review business continuity plan, business impact analysis and the disaster recovery plan of the Bank.
- Evaluation of borrower Risk Rating Migration Analysis in order to have better understanding on the movement of risk profiles of borrowers over the period of time.
- Review of retail product limits taking into consideration of the latest market developments.
- Revamping stress testing policies with more appropriate variables in view of managing risks in an integrated manner.
- Evaluate compliance function ensuring the adherence of compliance requirements on time and controlling the reputational risk of the bank.

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

On behalf of the Board Integrated Risk Management Committee

Nihal Kekulawala
Chairman
Board Integrated Risk Management Committee

Colombo, Sri Lanka
17th February 2020

Board Human Resources and Remuneration Committee Report

Composition of the Committee

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

Dimuth Prasanna
Chairman, Non-Executive, Non Independent Director

Mohan Abeynaike
Non-Executive, Independent Director/ Senior Director

Nihal Kekulawala
Non-Executive, Independent Director

Nimal Tillekeratne
Director/Chief Executive Officer

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

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

Secretary

The Company Secretary functions as the Secretary to the Committee.

Meetings

The committee had four meetings during the year. Attendance of the Committee members at each of these meetings are given on Page 100 of the Annual Report.

Functions and Responsibilities

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

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

On behalf of the Board Human Resources and Remuneration Committee

Dimuth Prasanna
Chairman
Board Human Resources and Remuneration Committee

Colombo, Sri Lanka
17th February 2020

Board Nomination Committee Report

Composition of the Committee

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

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

Dimuth Prasanna
Non-Executive, Non Independent, Director

Aravinda Perera
Non-Executive, Non Independent, Director

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

The Chief Executive Officer attends meetings by invitation.

Secretary

The Company Secretary functions as the Secretary to the Committee.

Meetings

During the year 2019, the committee held seven meetings. Attendance of the Committee members at each of these meetings is given on Page 100 of the Annual Report. The Committee reports directly to the Board of Directors.

Functions and Responsibilities

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

- The committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.
- The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.
- The committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and key management positions.
- The committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in the Corporate Governance Directions issued by the Central Bank of Sri Lanka.
- The committee shall consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel.
- The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. Minimum number of Directors in the committee to be 3 and the maximum 5.
- All promotees of Senior Manager and above grades to be interviewed by the Nomination Committee, prior to the promotions.
- All outside recruits of Manager and above grades to be interviewed by the Nomination Committee, prior to recruiting.
- Prior to the appointment of Directors, Corporate/Senior Management Members or Margin Trading department staff Affidavit to be submitted to the Nomination Committee for approval, to comply with SEC requirement on fitness and propriety and the affidavits of shareholders having more than 25% shareholding.

On behalf of the Board Nomination Committee

Mohan Abeynaike
Chairman
Board Nomination Committee

Colombo, Sri Lanka
17th February 2020

Board Credit Committee Report

Composition of the Committee

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

Dimuth Prasanna
Chairman, Non-Executive, Non Independent Director

Sarath Rangamuwa
Non-Executive, Non Independent Director

Aravinda Perera
Non-Executive, Non Independent Director

Nimal Tillekeratne
Director/Chief Executive Officer

Jayaraja Chandrasekara
Non-Executive, Non Independent Director (Resigned w. e. f. 12th February 2019)

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

Responsibilities 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 that comes within the purview and authority of the Committee.
- Proper evaluation & managing of new lending opportunities and threats in the operating environment.
- Monitor changes in the economic and the operating environment of the Bank so that Bank can have adequate controls 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 the committee members and management personnel for follow up actions and disbursement of credit as per the conditions stipulated by the Committee. All credit approvals by the Committee were subject to detailed deliberations among the members of the committee.

Functions of the Committee

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

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

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

On behalf of the Board Credit Committee

Dimuth Prasanna
Chairman
Board Credit Committee

Colombo, Sri Lanka
17th February 2020

Board Strategic Planning Committee Report

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

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

Composition of the Committee

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

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

Nihal Kekulawala
Non-Executive, Independent Director

Aravinda Perera
Non-Executive, Non Independent Director

Sarath Rangamuwa
Non-Executive, Non Independent Director

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

Secretary

The Chief Financial Officer acts as the Secretary to the Committee.

Meetings

The Committee met four times during the year. The attendance of the Committee members at each of these meetings are given on page 100 of the Annual Report. Minutes of the Committee meetings are circulated to the Committee members by the Secretary and the confirmed minutes are submitted to the Board of Directors for concurrence.

Functions and Responsibilities

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

a) 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 the strategic plan.

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

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

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

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

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

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

4) Reviewing the appropriateness of current Vision, Mission and strategic positioning of the Bank.

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

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

Performance

The Committee reviewed the Bank's performance against the strategic plan and the budget for the year 2019 and discussed reasons for substantial deviations and directed management for remedial actions.

Annual Budget for the year 2020 was discussed and reviewed in detail and changes to be incorporated were recommended before submitting to the Board of Directors for their approval. The Committee reviewed and took note of the Bank's capital structure against its growth targets and recommended to the Board the need for capital infusions to stay the course of the growth set out in the strategic plan and the budget as well as to be in line with minimum capital requirements imposed by the Regulator.

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

On behalf of the Board Strategic Planning Committee

Mohan Abeynaike
Chairman
Board Strategic Planning Committee

Colombo, Sri Lanka
17th February 2020

Board Related Party Transaction Review Committee Report

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

Composition of the Committee

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

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

Takashi Igarashi
Non-Executive, Independent Director

Sarath Rangamuwa
Non-Executive, Non Independent Director
(Appointed w.e.f. 27th February 2019)

Nimal Tillekeratne
Director/Chief Executive Officer

Jayaraja Chandrasekera
Non-Executive, Non Independent Director
(Resigned w. e. f. 12th February 2019)

In addition to the above members, the committee comprises the Chief Risk Officer, Chief Financial Officer, Chief Compliance Officer and Senior Manager II - Credit Risk. The committee invites Key Management Personnel and other members of the senior management on need basis to get further clarifications on subject matters.

Secretary

Senior Manager II - Credit Risk functioned as the Secretary of the Committee until 30th September 2019 and Senior Manager II - Compliance was appointed as the Secretary to the Committee w.e.f 1st October 2019.

Meetings

During the financial year 2019 the Committee held four meetings covering the four quarters. All matters stemming from the respective departments with regard to related party transactions have been reviewed and discussed with the participation of relevant heads of the departments. Minutes of the meetings have been circulated among committee members and the confirmed minutes have been submitted to the Board of Directors for necessary action.

Functions and Responsibilities

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

The mandate of the committee includes inter-alia the followings:

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

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

On behalf of the Board Related Party Transactions Review Committee

Mohan Abeynaike
Chairman
Board Related Party Transaction Review Committee

Colombo, Sri Lanka
17th February 2020

Board Recoveries Committee Report

Composition of the Committee

The Board members of the Recoveries Committee comprised of the following Directors as at the year end;

Dimuth Prasanna
Chairman, Non-Executive, Non Independent Director

Sarath Rangamuwa
Non-Executive, Non Independent Director

Aravinda Perera
Non-Executive, Non Independent Director

Nimal Tillekeratne
Director/Chief Executive Officer

DGM Recoveries and Chief Risk Officer are members of the Committee. Senior Manager II - Credit Risk currently acts as the Secretary to the Committee.

Senior DGM, DGM-Marketing, Cards & Deposit Mobilisation, AGM-Corporate Banking, AGM-Retail Credit, Chief Manager-Branch Credit, Chief Manager-Consumer Credit, Manager- Credit Monitoring, Senior Manager-Collections and Recoveries, Chief Financial Officer, Area Managers and other product heads will attend meetings by invitation.

The Board Recoveries Committee was set up in 2019 to inculcate top to bottom approach in minimising Non-Performing Loans (NPL) and maximising the profitability of the Bank. Recoveries are of paramount important for the overall performance of the Bank. Hence, it needs to ensure the commitment from all stakeholder concern supporting the overall recovery process at large. The Committee was formed for the purpose of ensuring sound recovery function & minimising potential non-performing advances to achieve sustainable growth and stability over the period of time.

Responsibilities

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

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

The following reports are mainly discussed at the meeting;

1. Non Performing Loans Management and Post Disbursement Monitoring
2. Collections & Recoveries - Credit Cards & Consumer Loans
3. Margin Trading Status Report - In addition to the above, any other matters in relation to Recoveries & NPL management are discussed at the meeting

Meetings

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

Functions of the Committee

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

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

On behalf of the Board Recoveries Committee

Dimuth Prasanna
Chairman
Board Recoveries Committee

Colombo, Sri Lanka
17th February 2020

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

Your Directors have pleasure in presenting to the members their report together with the Audited Financial Statements for the year ended 31st December 2019.

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

General

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

The Report of the Board of Directors on the Affairs of the Bank and the Financial Statements were approved by the Board of Directors on the 17th of February 2020.

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:

	2019 Rs. 000	2018 Rs. 000
Profit before Tax	2,314,139	1,909,657
Income Tax Expense	(563,570)	(368,014)
Profit for the Year	1,750,569	1,541,643
Other Comprehensive Income	3,908	18,383
Retained Profit Brought Forward	6,557,389	6,050,894
SLFRS 9 - Day 1 Adjustment	-	(983,270)
Transfer to Reserve Fund	(87,528)	(77,082)
Realisation of Revaluation Reserve	6,821	6,821
Un-appropriated Profit to be Carried Forward	8,231,159	6,557,389

Financial Statements

The Financial Statements of the Bank are given on pages 130 to 221 of this Annual Report.

Income

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

	2019 Rs. 000	2018 Rs. 000
Gross Income	21,907,662	21,672,193

Shareholders' Funds and Reserves

The Bank's total reserves as at 31st December 2019 stood at Rs. 9,714,534,903/-. This comprises a Statutory Reserve Fund of Rs. 538,717,048/-, Revaluation Reserve of Rs. 944,658,721/- and Retained Earnings of Rs. 8,231,159,133/-. The movement in Revaluation Reserve and Statutory Reserve Fund are shown in Note 34 and 35 to the Financial Statements.

Auditors' Report

The auditors of the Bank are Messrs Ernst & Young, Chartered Accountants. Their report on the Financial Statements is given on pages 125 & 129. 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 134 to 153.

Directors' Interest Register

Under the provisions of Section 192 of the Companies Act No. 07 of 2007, the Interest Register is maintained by the Bank. The Directors have made the necessary declarations which are recorded in the Interest register and are available for inspection in terms of the Act. The particulars of the Directors' Interest in Contracts are given on pages 117 & 118 of the Annual Report.

Donations

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

Directorate

The names of the Directors of the Bank during the period from 1st January 2019 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 Non Independent' and 'Non-Executive, Independent' Directors are given against the names as per the Central Bank of Sri Lanka (CBSL) mandatory rules on Corporate Governance under the Banking Act directions.

Dimuth Prasanna	Non-Executive, Non Independent Director since May, 2012. Appointed as 'Deputy Chairman' in September 2016 until 25th January 2017 and was appointed Chairman in July, 2017.
Sarath Rangamuwa	Non-Executive, Non Independent Director since August, 2014. Appointed as Deputy Chairman in January 2018.
Mohan Abeynaike	Non-Executive, Independent Director since October, 2014. Appointed as 'Senior Director' in February 2015.
Takashi Igarashi	Non-Executive, Independent Director since October, 2012.
Toyohiko Murakami	Non-Executive, Non Independent Director since April, 2013.
Nihal Kekulawala	Non-Executive, Independent Director since August 2016.
Aravinda Perera	Non-Executive, Non Independent Director since August 2017.
Nimal Tillekeratne	Director/Chief Executive Officer since April, 2017.
Jayaraja Chandrasekera	Non-Executive, Non Independent Director since May, 2015. Resigned w.e.f. 12th February, 2019.

Stated Capital

The Stated Capital of the Bank is Rs. 3,614,253,304/-. The details are given in Note 33 to the Financial Statements.

Internal Controls

The Board of Directors has 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.

Re-elections

In terms of Article No. 82 and 83 of the Articles of Association of the Bank, Dimuth Prasanna and Aravinda Perera 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 no Directors were appointed under casual vacancies during the year 2019.

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 117 & 118 of the Annual Report.

Directors' Interest in Shares

	No. of Shares As at 01.01.2019	No. of Shares As at 31.12.2019
Dimuth Prasanna	34,801	34,801
Sarath Rangamuwa	-	-
Mohan Abeynaike	-	-
Takashi Igarashi	-	-
Toyohiko Murakami	-	-
Nihal Kekulawala	-	-
Aravinda Perera	-	-
Nimal Tillekeratne	-	-

External Auditors

In accordance with the Companies Act No. 7 of 2007, a resolution for the re-appointment of Messrs Ernst & Young Chartered Accountants, to the Bank is being proposed at the Annual General Meeting. Audit Fees paid/payable to Ernst & Young for the year under review amounted to Rs. 4,798,918/-.

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

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 70 to 100.

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. 98,326,479/- during 2019, details of which are given in Note 22.1 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 13,207,997/- during 2019, details of which are given in Note 24 to the Financial Statements.

Statutory Payments

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

Shareholding

The number of registered shareholders of the Bank as at 31st December 2019 was 4,337 compared to 4,219 as at 31st December 2018. The schedule indicating the shareholder's analysis is on pages 263 to 265.

Debentures

The details of all Debentures of the Bank are given in Note 32.1 to the Financial Statements.

Register of Directors and Secretaries

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

Board Committees

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

New Branches

No new branches were opened during the year under review, total number of branches stood at 85 at the end of 2019.

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 Institute of Chartered Accountants of Sri Lanka' on 31st March 2020. The Notice of Meeting can be found on page 272.

Going Concern

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

For and on behalf of the Board of Directors

Dimuth Prasanna
Chairman

Sarath Rangamuwa
Deputy Chairman

Nimal Tillekeratne
Director/Chief Executive Officer

Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
17th February 2020

Directors' Interest Register

Director's/ Company Name	Relationship	Type of Assets/Liabilities/ Accommodation	Balance Outstanding as at 31.12.2019 Rs.
Dimuth Prasanna			
Grandmark (Pvt) Ltd.	Chairman	Deposits	43,377
Wise Property Solutions (Pvt) Ltd.	Managing Director	Deposits	110,708
Royal Ceramics Lanka PLC	Director	Deposits	28,349,460
		Loans and Advances	2,608
Royal Porcelain (Pvt) Ltd.	Director	Deposits	100,000
Rocell Bathware Ltd.	Director	Deposits	425,681
Delmege Forsyth & Co. (Shipping) Ltd.	Director	Deposits	37,476
Country Energy (Pvt) Ltd.	Director	Deposits	61,362
La Fortresse (Pvt) Ltd.	Director	Deposits	21,251
Delmege Insurance Brokers (Pvt) Ltd.	Director	Deposits	19,074,186
Lewis Brown Air Services (Pvt) Ltd.	Director	Deposits	4,127,316
Delmege Aviation Services (Pvt) Ltd.	Director	Deposits	739,111
Sarath Rangamuwa			
Vallibel Finance PLC	Managing Director	Deposits	523,196,860
		Loans and Advances	97,851
		Repo Borrowings	230,000,000
		Guarantees	1,200,000
Takashi Igarashi			
NWS Holdings (Pvt) Ltd.	Director	Deposits	486
NWS Management Services (Pvt) Ltd.	Director	Deposits	257,687
Prime Ocean Foods (Pvt) Ltd.	Director	Deposits	35,133
Cey Agri Plantations (Pvt) Ltd.	Director	Deposits	117
Sushiba Samurai (Pvt) Ltd.	Director	Deposits	39,629

GOVERNANCE

Directors' Interest Register

Director's/ Company Name	Relationship	Type of Assets/Liabilities/ Accommodation	Balance Outstanding as at 31.12.2019 Rs.
Toyohiko Murakami			
Bansei Holdings LK (Pvt) Ltd.	Chairman	Deposits	358,661,942
Bansei Royal Resorts Hikkaduwa PLC	Deputy Chairman	Deposits	79,840,115
Bansei Securities Capital (Pvt) Ltd.	Director	Deposits	12,928,737
		Repo Borrowings	10,103,215
Vallibel Finance PLC	Director	Deposits	523,196,860
		Loans and Advances	97,851
		Repo Borrowings	230,000,000
		Guarantees	1,200,000
Bansei & NWS Consultancy (Pvt) Ltd.	Director	Deposits	20,375
Hikkaduwa Hotel Holdings (Pvt) Ltd.	Director	Deposits	9,395,969
Bansei Resorts Bentota (Pvt) Ltd.	Director	Deposits	81,082
B R B Holidays (Pvt) Ltd.	Director	Deposits	673,283
BHLK Investments (Pvt) Ltd.	Director	Deposits	1,047,754
Wakana JPN (Pvt) Ltd.	Director	Deposits	93,979,305
Wakana Holidays (Pvt) Ltd.	Director	Deposits	324,425
Nihal Kekulawala			
Lanka Walltiles PLC	Director	Deposits	91,822
Continental Insurance Lanka Ltd.	Director	Deposits	51,003,896
AMW Capital Leasing and Finance PLC	Director	Deposits	344,553
Softlogic Holdings PLC	Director	Loans and Advances	533,333,333
Aravinda Perera			
Royal Ceramics Lanka PLC	Managing Director	Deposits	28,349,460
		Loans and Advances	2,608
Hayleys PLC	Director	Deposits	27,843
Royal Porcelain (Pvt) Ltd.	Director	Deposits	100,000
Rocell Bathware Ltd.	Director	Deposits	425,681

Directors' Other Directorships

Dimuth Prasanna
Chairman

	Company Name	Position
1.	Grandmark (Pvt) Ltd.	Chairman
2.	Wise Property Solutions (Pvt) Ltd.	Managing Director
3.	Royal Ceramics Lanka PLC	Director
4.	Rocell Bathware Ltd.	Director
5.	Delmege Forsyth & Co. (Shipping) Ltd.	Director
6.	Country Energy (Pvt) Ltd.	Director
7.	La Fortresse (Pvt) Ltd.	Director
8.	Delmege Forsyth & Co. (Exports) (Pvt) Ltd.	Director
9.	Delmege Insurance Brokers (Pvt) Ltd.	Director
10.	Rocell Properties Ltd.	Director
11.	Delmege Coir (Pvt) Ltd.	Director
12.	Delmege Freight Services (Pvt) Ltd.	Director
13.	Delmege Air Services (Pvt) Ltd.	Director
14.	Lewis Brown Air Services (Pvt) Ltd.	Director
15.	Lanka Tiles PLC	Alternate Director
16.	Delmege Aviation Services (Pvt) Ltd.	Director
17.	Delmege Airline Services (Pvt) Ltd.	Director
18.	Delmege Aero Services (Pvt) Ltd.	Director

Sarath Rangamuwa
Deputy Chairman

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

Mohan Abeynaike
Senior Director

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

Takashi Igarashi
Director

	Company Name	Position
1.	Ramboda Falls Hotels PLC	Chairman
2.	NWS Holdings (Pvt) Ltd.	Director
3.	NWS Management Services (Pvt) Ltd.	Director
4.	Prime Ocean Foods (Pvt) Ltd.	Director

*The above Directorships are as at 31st January 2020.

Toyohiko Murakami
Director

	Company Name	Position
1.	Bansei Holdings LK (Pvt) Ltd.	Chairman
2.	Bansei Royal Resorts Hikkaduwa PLC	Deputy Chairman
3.	Bansei Securities Capital (Pvt) Ltd.	Director
4.	Vallibel Finance PLC	Director
5.	Bansei & NWS Consultancy (Pvt) Ltd.	Director
6.	Hikkaduwa Hotel Holdings (Pvt) Ltd.	Director
7.	Bansei Resorts Bentota (Pvt) Ltd.	Director
8.	B R B Holidays (Pvt) Ltd.	Director
9.	Bentota Club Villa (Pvt) Ltd.	Director
10.	B H L K Investments (Pvt) Ltd.	Director
11.	Wakana JPN (Pvt) Ltd.	Director
12.	Wakana Holidays (Pvt) Ltd.	Director

Nihal Kekulawala
Director

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

Aravinda Perera
Director

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

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Bank prepared in accordance with the Provisions of the Companies Act No. 07 of 2007 is set out in the following statements. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Report of the External Auditors given on pages 125 to 129 of the Annual Report.

In terms of Sections 150 (1) and 151 (1) of the Companies Act No. 07 of 2007, the Directors of the Bank are responsible for ensuring that the Bank prepares the Financial Statements that gives a true and fair view of the state of affairs of the Bank as at the date of the Statement of Financial Position and the profit of the Bank for the financial year ended on the date of the Statement of Financial Position and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at 31st December 2019, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended and notes thereto.

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

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

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

The Financial Statements of the Bank have been certified by the Bank's Chief Financial Officer, the person responsible for their preparation, as required by the Act. Financial Statements of the Bank have been signed by the Chairman, the Deputy Chairman, the Chief Executive Officer and the Company Secretary of the Bank on 17th February 2020 as required by the 150 (1) of the Companies Act No. 07 of 2007.

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

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

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

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

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

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

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

The Directors have also instituted an effective and comprehensive system of internal controls. This comprises internal checks, internal audits and the whole system of financial and other controls required to carry on the banking business in an orderly manner, safeguard assets, prevent and detect frauds and other irregularities and secure as far as practicable, the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2019 is given on pages 101 & 102 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 103 of the Annual Report.

The Bank's External Auditors, Messrs Ernst and Young carried out reviews and sample checks on the system of Internal Controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them together with all financial records, related data and minutes of shareholders' and Directors meetings and expressed their opinion which appears as reported by them on pages 125 to 129 of this Annual Report.

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

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

By Order of the Board

Nayantha Fernando
Company Secretary

Colombo, Sri Lanka
17th February 2020

CEO's and CFO's Responsibility for Financial Reporting

The Financial Statements of Pan Asia Banking Corporation PLC ("the Bank") for the year ended 31st December 2019 are prepared and presented in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, Companies Act No.07 of 2007, Sri Lanka Accounting and Auditing Standards Act No.15 of 1995, Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations, and Guidelines issued by the Central Bank of Sri Lanka, and the Listing Rules of the Colombo Stock Exchange. The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank. There are no material departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The significant accounting policies and estimates that involved a high degree of judgement and complexity were discussed with the Audit Committee and External Auditors. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Audit Department has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. Further the Board assessed the effectiveness of the Bank's Internal Controls over Financial Reporting during the year ended 31st December 2019, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 101 and 102 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 103 of the Annual Report.

The Financial Statements of the Bank were audited by Messrs Ernst & Young, Chartered Accountants, the independent External Auditors. Their report is given on pages 125 to 129 of the Annual Report. The Audit Committee of the Bank meets periodically with the Internal Audit team and the independent External Auditors to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee approves the audit and non audit services provided by External Auditors, Messrs Ernst & Young, in order to ensure that the provision of such services does not impair independence of the External Auditors and does not contravene the guidelines issued by Central Bank of Sri Lanka on permitted non-audit services.

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

We confirm to the best of our knowledge;

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

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

Nimal Tillekeratne
Director/Chief Executive Officer

Suranga Fernando
Chief Financial Officer

Colombo, Sri Lanka
17th February 2020

Bank's Compliance with Prudential Requirements

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

The Compliance Unit

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

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

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

Compliance Reporting

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

The Compliance Certificate includes,

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

Compliance Culture

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

Anti Money Laundering (AML) Compliance

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

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

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

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

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

New Product Development Framework

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

PUSHING THE LIMIT

"Obstacles are what you see when you take your eyes off the goal" - *Vince Lombardi*

FINANCIAL AND INVESTOR INFORMATION

FINANCIAL AND INVESTOR INFORMATION

Financial Calendar

2019	
1st Quarter Unaudited Interim Results 2019	May 2019
2nd Quarter Unaudited Interim Results 2019	August 2019
3rd Quarter Unaudited Interim Results 2019	November 2019
4th Quarter Unaudited Interim Results 2019	February 2020
Annual Report for Year 2019	March 2020
25th Annual General Meeting	March 2020

2020	
1st Quarter Unaudited Interim Results 2020	May 2020
2nd Quarter Unaudited Interim Results 2020	August 2020
3rd Quarter Unaudited Interim Results 2020	November 2020
4th Quarter Unaudited Interim Results 2020	February 2021
Annual Report for Year 2020	March 2021
26th Annual General Meeting	March 2021

Independent Auditors' Report

Ernst & Young
Chartered Accountants
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TO THE SHAREHOLDERS OF PAN ASIA BANKING CORPORATION PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Pan Asia Banking Corporation PLC ('the Bank'), which comprise the statement of financial position as at 31st December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies on pages 130 to 221.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Bank as at 31st December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Independent Auditors' Report

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Key Audit Matter	How our audit addressed the key audit matter
Impairment Allowance for Loans and Advances Loans and Advances amounting to LKR 111.1billion. (Note 19), Net of Impairment Allowance of LKR 6.3 billion. (Note 19) consist of 73% of the total assets of the Bank as at 31st December 2019. The estimation of Impairment Allowance for Loans and Advances involved significant assumptions, estimates and complex manual calculations. Significant estimates and assumptions used by the management in such calculations and the basis for Impairment Allowance are disclosed in Notes 19 and 38.2 respectively. Impairment Allowance for Loans and Advances was considered a key audit matter due to the magnitude, significance of the assumptions involved.	To assess the reasonableness of the impairment charges, our audit procedures among others included the following: ▪ We evaluated design, implementation and operating effectiveness of controls over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of significant judgements, estimates and assumptions in relation to the impairment by the Board Audit Committees and management. ▪ In addition to the above, following key procedures were also performed: **For a sample of Loans and Advances individually assessed for impairment:** - We tested for a sample of loans and advances where impairment indicators existed, reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. - For loans and advances granted to customers in industries with elevated risk of credit loss, we assessed the main criteria used by the management in its assessment of expected impairment losses and reasonableness of impairment made thereof. **For Loans and Advances collectively Assessed for impairment:** - We test checked the completeness and accuracy of the underlying information and calculations thereon by agreeing details to the relevant source documents, information in IT systems and reperforming the calculations. - We also considered the reasonableness of macroeconomic and other factors used by management in their judgemental considerations for various types of loan portfolios, by comparing them with publicly available data and information sources. ▪ We assessed the adequacy of the related financial statement disclosures as set out in Notes 19 and 38.2.

Key Audit Matter	How our audit addressed the key audit matter
Preparation of financial statements inclusive of significant disclosures	
The Bank uses multiple IT systems in its operations. As a result, the preparations of financial statements inclusive of key disclosures are heavily dependent on information derived from such multiple systems. The process of preparing key disclosures involved generation of multiple system reports, collation, analysis and spread sheet based further calculations. Accordingly, we considered the risk of any control lapses in the preparation and presentation of financial statements and significant disclosures as a Key Audit Matter.	Our audit procedures included the following, amongst others: ▪ Understanding and evaluating of design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and collation of required information on which the significant financial statements disclosures are based. ▪ Test-checking; - the reports used to generate significant disclosures for accuracy and completeness; - source data of the reports generated from the related systems; - calculations made by management; - reasonableness of classifications made by management; ▪ Where we considered necessary, performing additional substantive audit procedures on selected disclosures.

Independent Auditors' Report

Other information included in the 2019 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2471.

17th February 2020
Colombo

Statement of Comprehensive Income

Year ended 31st December	Notes	2019 Rs.	2018 Rs.
Profit or Loss			
Gross Income		21,907,662,058	21,672,193,468
Interest Income		19,416,605,852	19,157,135,662
Interest Expense		(12,782,017,370)	(12,638,841,101)
Net Interest Income	5	6,634,588,482	6,518,294,561
Fee and Commission Income		1,605,877,008	1,626,409,880
Fee and Commission Expense		(60,559,052)	(106,728,749)
Net Fee and Commission Income	6	1,545,317,956	1,519,681,131
Net Gains from Trading	7	649,576,876	476,429,859
Other Operating Income	8	235,602,322	412,218,067
Total Operating Income		9,065,085,636	8,926,623,618
Impairment Charges	9	1,136,842,858	2,017,146,532
Net Operating Income		7,928,242,778	6,909,477,086
Personnel Expenses	10	1,973,309,656	1,863,074,115
Other Operating Expenses	11	2,552,253,935	2,445,747,486
Total Operating Expenses		4,525,563,591	4,308,821,601
Operating Profit Before Taxes & Levies on Financial Services		3,402,679,187	2,600,655,485
Taxes and Levies on Financial Services	12	1,088,540,188	690,998,636
Profit Before Tax		2,314,138,999	1,909,656,849
Income Tax Expense	13	563,569,904	368,014,002
Profit for the Year		1,750,569,095	1,541,642,847
Other Comprehensive Income			
Other Comprehensive Income not to be Re-classified to Profit or Loss			
Revaluation Surplus on Property, Plant and Equipment	34	455,092,963	-
Deferred Tax Effect on Above	13	(127,426,030)	-
		327,666,933	-
Actuarial Gains on Defined Benefit Plans	31	5,429,059	25,531,522
Deferred Tax Effect on Above	13	(1,520,137)	(7,148,826)
		3,908,922	18,382,696
Other Comprehensive Income for the Year Net of Tax		331,575,855	18,382,696
Total Comprehensive Income for the Year		2,082,144,950	1,560,025,543
Earnings Per Share - Basic/Diluted	14	3.96	3.48

The Accounting Policies and Notes on pages 134 to 221 form an integral part of the Financial Statements.

Statement of Financial Position

As at 31st December	Notes	2019 Rs.	2018 Rs.
Assets			
Cash and Cash Equivalents	15	1,708,269,215	2,214,106,348
Balances with Central Bank of Sri Lanka	16	5,333,199,577	6,481,993,762
Derivative Financial Instruments	17	443,298	209,701
Financial Assets at Fair Value through Profit or Loss	18	168,176,768	11,628,595
Financial Assets at Amortised Cost			
-Loans and Advances	19	111,187,855,278	108,168,861,465
-Debt and Other Instruments	20	30,080,088,461	34,074,557,579
Financial Assets at Fair Value through Other Comprehensive Income	21	6,157,847	6,157,847
Property, Plant and Equipment	22	2,333,961,113	1,934,573,939
Right-of-Use Assets	23	911,836,800	-
Intangible Assets	24	280,851,974	305,083,081
Deferred Tax Assets	13	-	4,931,302
Other Assets	25	968,855,145	824,179,204
Total Assets		152,979,695,476	154,026,282,823
Liabilities			
Due to Banks	26	521,836,342	1,744,206,845
Derivative Financial Instruments	17	107,293	114,235
Financial Liabilities at Amortised Cost			
-Due to Depositors	27	122,544,024,040	118,627,348,744
-Due to Debt Securities holders	28	11,944,842,751	13,295,604,446
Debentures Issued	32	-	5,809,186,153
Current Tax Liabilities		752,287,378	785,735,048
Deferred Tax Liabilities	13	132,780,476	-
Other Provisions and Accruals	29	187,602,599	208,398,012
Other Liabilities	30	3,567,426,391	2,309,046,084
Total Liabilities		139,650,907,270	142,779,639,567
Equity			
Stated Capital	33	3,614,253,304	3,614,253,304
Retained Earnings		8,231,159,133	6,557,388,818
Revaluation Reserve	34	944,658,721	623,812,541
Statutory Reserve Fund	35	538,717,048	451,188,593
Total Equity		13,328,788,206	11,246,643,256
Total Liabilities and Equity		152,979,695,476	154,026,282,823
Commitments and Contingencies	42	46,999,029,226	44,169,941,089

The Accounting Policies and Notes on pages 134 to 221 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
Chief Financial Officer

The Board of Directors are responsible for these Financial Statements. Signed for and on behalf of the Board by;

Dimuth Prasanna
Chairman

Sarath Rangamuwa
Deputy Chairman

Nimal Tillekeratne
Director/Chief Executive Officer

Nayantha Fernando
Company Secretary

17th February 2020
Colombo, Sri Lanka

FINANCIAL AND INVESTOR INFORMATION

Statement of Changes in Equity

	Notes	Stated Capital	Reserves			Total
		Ordinary Voting Shares	Retained Earnings	Statutory Reserve Fund	Revaluation Reserve	
		Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st January 2018		3,614,253,304	6,050,894,180	374,106,451	630,633,294	10,669,887,229
Impact of Adopting SLFRS 9		-	(1,365,652,105)	-	-	(1,365,652,105)
Deferred Tax Impact on Above		-	382,382,589	-	-	382,382,589
Re-Stated Opening Balance Under SLFRS 9		3,614,253,304	5,067,624,664	374,106,451	630,633,294	9,686,617,713
Total Comprehensive Income for the Year						
Profit for the Year		-	1,541,642,847	-	-	1,541,642,847
Other Comprehensive Income for the Year		-	18,382,696	-	-	18,382,696
Total Comprehensive Income for the Year		-	1,560,025,543	-	-	1,560,025,543
Other Transactions						
Transfer to Statutory Reserve Fund	35	-	(77,082,142)	77,082,142	-	-
Realisation of Revaluation Reserve	34	-	6,820,753	-	(6,820,753)	-
Total Other Transactions		-	(70,261,389)	77,082,142	(6,820,753)	-
Balance as at 31st December 2018		3,614,253,304	6,557,388,818	451,188,593	623,812,541	11,246,643,256
Total Comprehensive Income for the Year						
Profit for the Year		-	1,750,569,095	-	-	1,750,569,095
Other Comprehensive Income for the Year		-	3,908,922	-	327,666,933	331,575,855
Total Comprehensive Income for the Year		-	1,754,478,017	-	327,666,933	2,082,144,950
Other Transactions						
Transfer to Statutory Reserve Fund	35	-	(87,528,455)	87,528,455	-	-
Realisation of Revaluation Reserve	34	-	6,820,753	-	(6,820,753)	-
Total Other Transactions		-	(80,707,702)	87,528,455	(6,820,753)	-
Balance as at 31st December 2019		3,614,253,304	8,231,159,133	538,717,048	944,658,721	13,328,788,206

The Accounting Policies and Notes on pages 134 to 221 form an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31st December	Notes	2019 Rs.	2018 Rs.
Cash Flows from Operating Activities			
Profit Before Tax		2,314,138,999	1,909,656,849
Adjustments for:			
Other Non Cash Items Included in Profit Before Tax	40	1,602,000,804	2,275,561,692
Change in Operating Assets	40	608,163,535	(18,619,190,241)
Change in Operating Liabilities	40	2,363,146,342	14,268,920,225
Interest Expense on Debentures	5	454,862,881	668,258,236
Interest Expense on Lease Liabilities	5	101,630,636	-
Interest Expense on Term Borrowings		847,112,868	738,304,432
Defined Benefit Plan Costs Paid	31	(25,359,850)	(27,834,345)
Income Tax Paid		(588,251,962)	(393,052,344)
Net Cash Flows from Operating Activities		7,677,444,253	820,624,504
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	22	(98,326,479)	(104,737,826)
Proceeds from the Sale of Property, Plant and Equipment		776,810	2,798,352
Purchase of Intangible Assets	24	(13,207,997)	(55,063,651)
Net Cash Flows Used In Investing Activities		(110,757,666)	(157,003,125)
Cash Flows from Financing Activities			
Proceeds from Term Borrowings	28	362,760,000	2,870,094,225
Redemption of Debentures	32	(5,690,855,300)	(1,309,144,700)
Repayment of Term Borrowings	28	(1,000,000,000)	(500,000,000)
Interest Paid on Debentures		(573,193,734)	(703,260,306)
Interest Paid on Term Borrowings		(861,852,688)	(709,613,002)
Repayment of Principal Portion of Lease Liabilities		(206,370,814)	-
Interest Paid on Lease Liabilities		(101,630,636)	-
Net Cash Flows Used In Financing Activities		(8,071,143,172)	(351,923,783)
Net Increase/(Decrease) in Cash and Cash Equivalents		(504,456,585)	311,697,596
Cash and Cash Equivalents at 1st January	40	2,214,106,348	1,902,408,752
Cash and Cash Equivalents at 31st December		1,709,649,763	2,214,106,348

The Accounting Policies and Notes on pages 134 to 221 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 a 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 2019 is 1,629 (2018:1,497). The Ordinary Voting Shares of the Bank have a listing on the Colombo Stock Exchange. The Bank does not have an identifiable parent of its own. Further, the Bank does not hold any investments in the form of subsidiary, joint venture or associate.

1.2 Principal Activities and Nature of Operations

The principal activities of the Bank continued to be Banking and related activities such as accepting deposits, personal banking, trade financing, 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 2019 have been prepared in accordance with Sri Lanka Accounting Standards comprising LKASs and SLFRSs as issued by the Institute of Chartered Accountants of Sri Lanka and comply with requirements of Companies Act No.7 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. The Financial Statements includes Statement of Financial Position, Statement of Comprehensive Income (Profit or Loss and Other Comprehensive Income), Statement of Changes in Equity, 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 at Fair Value through Profit or Loss, Financial Assets at Fair Value through Other Comprehensive Income (FVOCI), Derivative Financial Instruments at fair value, Defined Benefit Obligations actuarially valued and Freehold Land and Building stated at revalued amounts which are the fair values at the date of revaluation as explained in Note 22 to the Financial Statements, 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 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 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 17th February 2020.

2.5 Presentation of Financial Statements

The Bank presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non current) is presented in Note 41.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.6 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Bank's financial statements requires management to make Judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, the management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/ estimates involved.

2.6.1 Going Concern

The Bank's Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.6.2 Classification of Financial Assets and Liabilities

The Bank's Accounting Policies provide scope for assets and liabilities to be classified, at inception into different accounting categories. The classification of financial instruments is given in Note 36, 'Analysis of Financial 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 judgements include model inputs such as volatility for discount rates. The valuation of financial instruments is described in more detail in Note 37.

2.6.4 Impairment Losses on Financial Assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk.

These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's Days Past Due (DPD) based model, which assigns Probabilities of Defaults (PDs) to the individual age bucket
- The Bank's criteria for assessing if there has been a Significant Increase in Credit Risk (SICR) and so allowances for financial assets should be measured on a Life Time Expected Credit Losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values and the effect on Probability of Default (PDs), Exposure at Default (EADs) and Loss Given Default (LGDs)
- Selection of forward-looking macro economic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

The impairment losses on Financial Assets as per SLFRS 9 are disclosed in more detail in Notes 9, 9.1, 15.1, 19.5 and 20.3.

2.6.5 Fair Value of Property, Plant and Equipment

The Freehold Land and Buildings of the Bank are reflected at fair value. The Management determined that these constitute a class of asset under SLFRS 13, based on the nature, characteristics and risks of the property. The Bank engages independent professional valuers to determine fair values 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.

Assumptions used are disclosed in Note 22.6.

2.6.6 Useful Lives, Methods of Depreciation and Residual Values of the Property, Plant and Equipment

The Bank reviews the useful lives, methods of depreciation and residual values of significant Property, Plant and Equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.6.7 Defined Benefit Plan Obligation

The Defined Benefit Plan Obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are reviewed at each reporting date and disclosed in Note 31.

2.6.8 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.6.9 Provisions, Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

2.7 Changes in Accounting Policies and Disclosures

2.7.1 New and amended standards and interpretations

In these financial statements, the Bank has applied SLFRS 16 - 'Leases' and IFRIC 23 - 'Uncertainty over Income Tax Treatment' for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described in Notes 2.7.1.1, 2.7.1.2 and 2.8.13.

2.7.1.1 SLFRS 16 - Leases

SLFRS 16 supersedes LKAS 17- 'Lease' and IFRIC 4 - 'Determining whether an Arrangement contains a Lease' for periods on or after 01st January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted SLFRS 16 using the 'Modified Retrospective Method' of adoption with the date of initial application of 1st January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1st January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying LKAS 17 at the date of initial application.

The Bank has entered into lease contracts in connection with various premises used for day today activities. Before the adoption of SLFRS 16, the Bank classified each of its leases (as lessee) at the inception date as operating leases. Refer Note 2.8.14 for the accounting policy prior to 1st January 2019.

Upon adoption of SLFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer Note 2.8.13 for the accounting policy beginning 1st January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

Leases previously accounted for as operating leases under SLFRS 16

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, the impact on transition has been disclosed in Note 4.

2.7.1.2 IFRIC 23 - Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12- 'Income Taxes'. It does not apply to taxes or levies outside the scope of LKAS-12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a complex environment, it assessed whether the Interpretation had an impact on its financial statements. Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions. The Bank determined, based on its tax compliance that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Bank.

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.

2.8.1.1 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 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

2.8.2.1 Date of Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

2.8.2.2 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.8.3.1.1 and 2.8.3.1.2. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

2.8.2.3 'Day 1' Profit or Loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is de-recognised.

2.8.2.4 Measurement Categories of Financial Assets and Liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 2.8.3.1
- FVOCI, as explained in Notes 2.8.3.4 and 2.8.3.5
- FVPL

The Bank classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 2.8.3.2 and 2.8.3.3. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 2.8.3.7.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 2.8.3.7.

2.8.3 Financial Assets and Liabilities

2.8.3.1 Due from Banks, Loans & Advances and Financial Investments at Amortised Cost

The Bank only measures balances with foreign banks, placements with banks, loans and advances and other debt instruments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

The details of these conditions are outlined below.

2.8.3.1.1 Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios in to account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2.8.3.1.2 The SPPI test

As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.8.3.2 Derivatives recorded at fair value through profit or loss

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

- Its value changes in response to the change in a specified interest rate, foreign exchange rate, financial instrument price, commodity price, index of prices or rates, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include cross currency swaps, forward foreign exchange contracts and interest rate swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.
Fully collateralised derivatives that are settled net in cash on a regular basis through clearing houses are only recognised to the extent of the overnight outstanding balance. The notional amount and fair value of such derivatives are disclosed separately in Note 17. Changes in the fair value of derivatives are included in 'net gains from trading' in Note 7.

2.8.3.3 Financial assets or financial liabilities held for trading

The Bank classifies financial assets as held for trading when they have been purchased primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there evidence of a recent pattern of short-term profit is taking. Held-for-trading assets are recorded and measured in the statement of financial position at fair value. Changes in fair value and dividend income are recognised in 'net trading income'. Interest income on held -for trading assets are recorded in 'Interest Income'. Included in this classification are debt securities, units and equities.

2.8.3.4. Debt instruments at FVOCI

The Bank classifies debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained in Note 2.8.6.3. 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. On de-recognition, cumulative gains or losses previously recognised in OCI are re-classified from OCI to profit or loss.

2.8.3.5 Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of 'Equity' under LKAS 32- 'Financial Instruments' are not held for trading. Such classification is determined on an instrument-by- instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

2.8.3.6. Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

2.8.3.7. Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criterions is met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

  or

- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

  or

- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative is prohibited.

2.8.3.8. Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements within 'other liabilities' at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or Loss, and under SLFRS 9, an ECL provision as set out in Note 30.1.

The premium received is recognised in the Statement of Comprehensive Income (Profit or Loss) in net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer.

These contracts are in the scope of the ECL requirements. ECL's on undrawn credit commitments are added to the impairment allowances of the respective product and disclosed under Note 19.5.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments are disclosed in Note 42.

2.8.4 Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes off, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2018 and 2019.

2.8.5 De-recognition of financial assets and liabilities

2.8.5.1. De-recognition due to substantial modification of terms and conditions

The Bank de-recognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a de-recognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as 'Stage 1' for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to de-recognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in de-recognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

2.8.5.2. De-recognition other than for substantial modification

2.8.5.2.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised when the rights to receive cash flows from the financial asset have expired. The Bank also de-recognises the financial asset if it has both transferred the financial asset and the transfer qualifies for de-recognition.

The Bank has transferred the financial asset if and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

  or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients.
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for de-recognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

  or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.8.5.2.2. Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, 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.

2.8.6 Impairment of financial assets

2.8.6.1. Overview of the ECL principles
The Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12months' expected credit loss (12mECL) as outlined in Note 2.8.6.2. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 38.2.2.5.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 38.2.2.6.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 38.2.2.5.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. Further bank includes credit facilities restructured up to 2 times under Stage 2.
- Stage 3: Loans considered credit impaired (as outlined in Note 38.2.2.1). The Bank records an allowance for the LTECLs. Further the bank includes credit facilities restructured for more than 2 times under stage 3.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

2.8.6.2. The calculation of ECLs
The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de-recognised and is still in the portfolio. The concept of PDs is further explained in Note 38.2.2.2.

- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 38.2.2.3.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 38.2.2.4.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs, as set out in Note 38.2.2. When relevant, the assessment of multiple scenarios also incorporate show defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 2.8.6.5, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 9. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained in Note 2.8.6.5.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired (as defined in Note 38.2.2.1), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability weighting of the three scenarios, discounted by the credit-adjusted EIR.
- Loan commitments and letters of credit: When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For Letters of Credit, ECLs are recognised within Other Liabilities.

- Financial guarantee contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or Loss, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within Other Liabilities.

2.8.6.3. Debt instruments measured at FVOCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

The accumulated loss recognised in OCI is recycled to the profit and loss upon de-recognition of the assets.

2.8.6.4. Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

2.8.6.5. Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdrafts and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 38.2.2, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 38.2.2.6, on an individual basis and on a collective basis. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

2.8.6.6 Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Exchange rates
- Inflation price indices
- Interest rates
- Government Policies
- Status of Industry and Business
- Regulatory Impact

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 38.2.3.

2.8.7 Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, property, letters of credit/ guarantees, receivables, inventories and other movable and non movable assets. The fair value of collateral is generally assessed, at a minimum, at inception and thereafter value changes are monitored in accordance with policies and procedures of the Bank. However, some collateral, for example, cash or securities relating to margining requirements, are valued on daily basis. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as freehold property is valued based on valuation reports and other independent sources.

2.8.8 Collateral repossessed

The Bank's policy is to sell the repossessed assets at the earliest possible opportunity. Such collaterals repossessed are held on a memorandum basis without de-recognising the underlying receivable.

2.8.9 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. The Bank takes reasonable steps in pursuing recovery of contractual amounts outstanding prior to writing them off from books. The amounts written off during the year as disclosed in note 19.5 are contractual amounts which the bank has either become unsuccessful on the enforcement action or has concluded that the chances of recovering the same as remote. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are shown under 'Other Operating Income'.

2.8.10. Forborne loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. De-recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not de-recognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 38.2.2.5. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as 'forborne', it will remain forborne for 3-12 months probation period, depending on number of days in arrears of respective facilities prior to forebearence as prescribed by Central Bank of Sri Lanka. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing.
- The probation period of 3-12 months has passed from the date the forborne contract was considered performing.
- The customer does not have any contract that is more than 30 days past due.

Details of forborne assets are disclosed in Note 38.2.5.

If modifications are substantial, the loan is de-recognised, as explained above.

2.8.11 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 37.2.

2.8.12 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.

2.8.13 Leases (applicable from 1st January 2019)

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per SLFRS 16 and recognise right of use assets and lease liabilities.

2.8.13.1 Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.8.13.1.1 Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 23 and are subject to impairment in line with the Bank's policy for Impairment of non-financial assets.

2.8.13.1.2 Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

2.8.13.1.3 Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate.

2.8.13.1.4 Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments.

2.8.13.2 Bank as a lessor
Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.8.14 Leases (Policy applicable before 1st January 2019)

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.

2.8.14.1 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.

2.8.14.2 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 Advances' 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.

2.8.15 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.

2.8.15.1 The Effective Interest Rate Method
Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9 is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income.

The adjustment is subsequently amortised through Interest and similar income in the Statement of Comprehensive Income (Profit or Loss).

2.8.15.2 Interest Income and Expense
The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures (as outlined in Note 38.2.2.1) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit impaired (POCI) financial assets (as set out in Note 2.8.6.4), the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in interest income.

2.8.15.3 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:

2.8.15.3.1 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.

2.8.15.3.2 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.

2.8.15.4 Dividend Income

Dividend income is recognised when the Bank's right to receive the payment is established.

2.8.15.5 Net Gains from Trading

Results arising from trading activities include all gains and losses from buying and selling and changes in fair value of Financial Assets at fair value through profit or loss.

2.8.15.6 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 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.

2.8.15.7 Short term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided and are included under Personnel Expenses in the Statement of Comprehensive Income (Profit or Loss). A liability is recognised for the amounts expected to be paid under short-term bonus if the Bank has a present legal or constructive obligation to pay this amount as a result past service rendered by the employee and the obligation can be measured reliably.

2.8.16 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 within significant risk of changes in value.

2.8.17 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 year.

2.8.17.1 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.

2.8.17.2 Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. The cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding cost of day to day servicing) as explained in 2.8.17.5 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.

2.8.17.3 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.

2.8.17.4 Revaluation Model

The Bank applies the revaluation model to the entire class of Freehold Land and Buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold Land and Buildings of the Bank are revalued every three years on a roll over basis or more frequently if the fair values are substantially different from the carrying amounts to ensure that the carrying amounts do not differ materially from the fair values at the reporting date.

When asset's carrying amount is increased as a result of a revaluation the increase shall be recognised in Other Comprehensive Income and accumulated in equity under the heading of 'Revaluation Reserve'. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in Profit or Loss. However, the decrease shall be recognised in Other Comprehensive Income to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under the heading of 'Revaluation Reserve'.

A transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation reserve relating to the particular asset being sold/disposed off is transferred to retained earnings upon de-recognition.

2.8.17.5 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.

2.8.17.6 De-recognitions

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.

2.8.17.7 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.

2.8.18 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 licenses and other computer software.

2.8.18.1 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.

2.8.18.2 Measurement
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at costless 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.

2.8.18.3 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.

2.8.18.4 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 is not recognised as part of the cost of an intangible asset at a later date.

2.8.18.5 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.

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

2.8.20 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 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.

2.8.21 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.

2.8.21.1 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.

2.8.22 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 42.

2.8.22.1 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.

2.8.22.2 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.

2.8.23 Employee Retirement Benefits

2.8.23.1 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 contributes12% - 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'.

2.8.23.2 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, inconformity 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.

2.8.24 Other Liabilities

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

2.8.25 Taxes

2.8.25.1 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. 24 of 2017.

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.

2.8.25.2 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.

2.8.25.3 Economic Service Charge
As per provisions of the Economic Service Charge (ESC) Act No.13 of 2006 and amendments thereafter, ESC is payable at 0.5% on Bank's liable turnover and is deductible from income tax payable. Economic Service Charge is proposed to be abolished with effective from 1st January 2020, subject to the ratification of the parliament.

2.8.25.4 Value Added Tax on Financial Services
Value Added Tax on Financial Services is calculated at 15% in accordance with the provisions of the Value Added Tax Act No.14 of 2002 and amendments thereto.

2.8.25.5 Nation Building Tax on Financial Services
Nation Building Tax on Financial Services for 1st January 2019 to 30th November 2019 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. Nation Building Tax has abolished from 1st December 2019 by the government.

2.8.25.6 Debt Repayment Levy
Debt Repayment Levy (DRL) was originally imposed on Banks and Finance Companies for a period of 3 years commencing from 1st October 2018 in accordance with the provisions of the Finance Act No. 35 of 2018.

DRL is calculated at the rate of 7% on the Taxable Value Addition computed for the purpose of Value Added Tax on Financial Services in accordance with the provisions of the Value Added Tax Act No.14 of 2002 before deducting Value Added Tax and Nation Building Tax on Financial Services. DRL is proposed to be abolished with effective from 1st January 2020, subject to the ratification of the parliament.

2.8.25.7 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.

2.8.26 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.

2.8.27 Dividends on Ordinary Shares
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.8.28 Materiality and Aggregation
Each material class of similar items is presented in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

2.8.29 Related Party Transactions
Disclosures have 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.

2.8.30 Events after the Reporting Period
All the material events after end of the reporting period have been considered and appropriate adjustments/disclosures have been made in Note 45 to the Financial Statements.

2.9 Segment Reporting
The Bank's segmental reporting is based on the following operating segments: Corporate Banking, Retail & SME Banking and Treasury & Investments.

Notes to the Financial Statements

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

Retail & SME banking segment includes loans, overdrafts, credit card facilities, deposits, current accounts and other services offered to Retail and SME 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 on net basis 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 counterparty amounted to 10% or more of the Bank's total revenue during the year.

2.10 Regulatory Provisions

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% per annum on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceded financial year and a premium of 0.125% per annum on eligible deposit liabilities for all other Licensed Commercial Banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

2.11 Transition Disclosure

Note 4 set out the impact of adopting SLFRS 16 on the Statement of Financial Position.

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 2019.

3.1. Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of financial statements are disclosed below. The Banks intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

SLFRS 17 - Insurance Contracts

SLFRS 17 - Insurance Contracts, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 Insurance contracts. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for reporting periods beginning on or after 1st January 2021. Early application permitted, if the entity is applying SLFRS 16 and SLFRS 15 on or before the date in which it first apply SLFRS 17.

Amendments to LKAS 1 and LKAS 8: Definition of 'Material'

Amendments to LKAS 1 - 'Presentation of Financial Statements' and LKAS 8 - 'Accounting policies, Changes in accounting Estimates and Errors' are made to align the definition of "material" across the standard and to clarify certain aspects of the definition. The new definition states that, "information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are applied prospectively for the annual periods beginning on or after 1st January 2020 with early application permitted.

Amendments to SLFRS 3: Definition of a Business

Amendments to the definition of a business in SLFRS 3 Business Combinations are made to help the entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definition of a business and of outputs, and introduce an optional fair value concentration test.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1st January 2020, with early application permitted.

Amendments to references to the conceptual framework in SLFRS standards.

Revisions to the Conceptual Framework were made because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability, and guidance supporting these definitions; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting

The amendments are effective for annual periods beginning on or after 1st January 2020, with early application is permitted

Amendments to SLFRS 10 and LKAS 28

Limited scope amendments to SLFRS 10 consolidated financial statements and LKAS 28 investments in associates and joint ventures were made. The amendments clarify the accounting treatment for sale or contribution of assets between investor and it's associate or joint ventures.

The amendments are applied prospectively. The effective date of the amendment is yet to be set by the CASL. However early application is permitted.

None of these new standards and amendments are expected to have a material impact on the financial statements of the Bank.

Notes to the Financial Statements

4 TRANSITIONAL DISCLOSURES

On transition to SLFRS 16, the Bank recognised right-of-use assets of Rs.1,086,495,125/- and lease liabilities of Rs.1,006,839,907/- in the Statement of Financial Position. The difference between the asset and liability was prepaid rentals as at 1st January 2019. The impact of transition as at 1st January 2019 is summarised below.

	Rs.
Operating lease commitments as at 31st December 2018	1,383,139,160
Weighted average incremental borrowing rate as at 1st January 2019	10.66%
Discounted operating lease commitments (Right-of-Use Assets) as at 1st January 2019	1,086,495,125
Lease Liabilities as at 1st January 2019	1,006,839,907

The adoption of SLFRS 16 had no impact on Bank's retained earnings and Capital Adequacy Ratios of the Bank.

5 NET INTEREST INCOME

	2019 Rs.	2018 Rs.
Interest Income		
Placements with Banks	8,007,723	29,177,275
Financial Assets at Amortised Cost		
-Loans and Advances	16,556,839,163	16,747,123,550
-Debt and Other Instruments	2,674,926,832	2,344,626,687
Financial Assets at Fair Value through Profit or Loss	176,832,134	36,208,150
	19,416,605,852	19,157,135,662
Interest Expense		
Due to Banks	97,487,310	137,537,101
Financial Liabilities at Amortised Cost		
-Due to Depositors	11,044,720,898	10,867,465,571
-Due to Debt Securities holders	1,083,315,645	965,580,192
Lease Liabilities *	101,630,636	-
Debenture Issued	454,862,881	668,258,237
	12,782,017,370	12,638,841,101
Net Interest Income	6,634,588,482	6,518,294,561

* The amounts for the year ended 31st December 2019 have been prepared in accordance with SLFRS 16: Leases where as prior period figures have not been restated.

5.1 Interest Income from Sri Lanka Government Securities and related Financial Instruments

	2019 Rs.	2018 Rs.
Interest Income	2,687,758,966	2,193,966,425

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, Sovereign Bonds and other related instruments.

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

	2019 Rs.	2018 Rs.
Interest Income	19,239,773,718	19,120,927,512
Interest Expense	(12,782,017,370)	(12,638,841,101)
Net Interest Income	6,457,756,348	6,482,086,411

5.3 Interest Accrued on Impaired Loans and Advances

The Bank's interest income for year 2019 includes interest accrued on impaired loans and advances of Rs. 27,993,149/- (2018 - Rs. 22,741,303/-)

6 NET FEE AND COMMISSION INCOME

	2019 Rs.	2018 Rs.
Net Fee and Commission Income		
Fee and Commission Income	1,605,877,008	1,626,409,880
Fee and Commission Expense	(60,559,052)	(106,728,749)
	1,545,317,956	1,519,681,131
Comprising		
Loans	587,684,697	625,594,940
Cards	547,054,533	448,177,061
Trade and Remittance	283,037,304	335,579,254
Deposits	88,219,941	52,765,115
Guarantees	39,321,481	57,564,761
	1,545,317,956	1,519,681,131

7 NET GAINS FROM TRADING

	2019 Rs.	2018 Rs.
Equities and Unit Trusts		
Realised	195,148,944	194,956,365
Unrealised	5,472,280	(478,824)
Debt Securities		
Realised	80,318,320	5,546,349
Unrealised	983,125	(6,531,315)
Foreign Exchange - Net Forward Forex Gain	367,654,207	282,937,284
	649,576,876	476,429,859

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.

Notes to the Financial Statements

8 OTHER OPERATING INCOME

	2019 Rs.	2018 Rs.
Gains on Revaluation of Foreign Exchange	177,485,418	377,422,327
Gains on Sale of Property Plant and Equipment	-	2,104,202
Recovery of Loans Written-off	44,914,413	19,614,763
Other Income	13,202,491	13,076,775
	235,602,322	412,218,067

8.1 The Bank does not perform interbank foreign currency transactions for trading purposes in the normal course of business. Therefore, no gain or loss generated from such transactions during the year. However, the Bank carry out forward transaction deals pertaining to customer requirements in the normal course of business.

9 IMPAIRMENT CHARGES

	2019			2018		
	Individual Rs.	Collective Rs.	Total Rs.	Individual Rs.	Collective Rs.	Total Rs.
Cash and Cash Equivalents (Note 15.1)	-	1,019,432	1,019,432	-	(591,471)	(591,471)
Placements with Banks	-	-	-	-	(645,483)	(645,483)
Loans and Advances - at Amortised Cost (Note 19.5)	456,808,435	631,862,532	1,088,670,967	1,297,299,816	701,812,027	1,999,111,843
Debt and Other Instruments - at Amortised Cost (Note 20.3)	-	42,525,810	42,525,810	-	33,763,997	33,763,997
Financial Guarantees (Note 30.1)	-	340,071	340,071	-	(8,133,718)	(8,133,718)
Documentary Credit (Note 30.1)	-	4,286,578	4,286,578	-	(6,358,636)	(6,358,636)
Total Impairment Charge for the Year	456,808,435	680,034,423	1,136,842,858	1,297,299,816	719,846,716	2,017,146,532

Stage wise analysis of impairment charge for the year is found in Note 9.1.

9.1 Impairment Charge - Stage-wise Analysis

	2019											
	Individual				Collective				Total			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents		-	-	-	1,019,432	-	-	1,019,432	1,019,432	-	-	1,019,432
Loans and Advances - at Amortised Cost		-	456,808,435	456,808,435	(203,310,805)	(102,644,359)	937,817,696	631,862,532	(203,310,805)	(102,644,359)	1,394,626,131	1,088,670,967
Debt and Other Instruments - at Amortised Cost	-	-	-	-	42,525,810	-	-	42,525,810	42,525,810	-	-	42,525,810
Financial Guarantees	-	-	-	-	340,071	-	-	340,071	340,071	-	-	340,071
Documentary Credit	-	-	-	-	4,286,578	-	-	4,286,578	4,286,578	-	-	4,286,578
Total (Note 9)	-	-	456,808,435	456,808,435	(155,138,914)	(102,644,359)	937,817,696	680,034,423	(155,138,914)	(102,644,359)	1,394,626,131	1,136,842,858

	2018											
	Individual				Collective				Total			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	-	-	-	-	(591,471)	-	-	(591,471)	(591,471)	-	-	(591,471)
Placements with Banks	-	-	-	-	(645,483)	-	-	(645,483)	(645,483)	-	-	(645,483)
Loans and Advances - at Amortised Cost	(720,642)	-	1,298,020,458	1,297,299,816	257,584,087	35,153,471	409,074,469	701,812,027	256,863,445	35,153,471	1,707,094,927	1,999,111,843
Debt and Other Instruments - at Amortised Cost	-	-	-	-	33,763,997	-	-	33,763,997	33,763,997	-	-	33,763,997
Financial Guarantees	-	-	-	-	(8,133,718)	-	-	(8,133,718)	(8,133,718)	-	-	(8,133,718)
Documentary Credit	-	-	-	-	(6,358,636)	-	-	(6,358,636)	(6,358,636)	-	-	(6,358,636)
Total (Note 9)	(720,642)	-	1,298,020,458	1,297,299,816	275,618,776	35,153,471	409,074,469	719,846,716	274,898,134	35,153,471	1,707,094,927	2,017,146,532

Notes to the Financial Statements

10 PERSONNEL EXPENSES

	2019 Rs.	2018 Rs.
Salaries, Wages and Other Related Expenses	1,671,833,059	1,581,062,343
Defined Contribution Plan Expenses - Employees' Provident Fund	155,468,333	146,482,888
- Employees' Trust Fund	36,745,697	34,520,041
Defined Benefit Plan Expenses (Note 31.1)	71,936,571	66,708,219
Amortisation of Prepaid Staff Expenses	37,325,996	34,300,624
	1,973,309,656	1,863,074,115

11 OTHER OPERATING EXPENSES

	2019 Rs.	2018 Rs.
Directors' Emoluments (Note 11.1)	56,777,062	58,399,325
Auditors' Remuneration	4,798,918	4,169,900
Non Audit Fees to Auditors	-	1,253,879
Professional and Legal Expenses	38,899,805	46,135,845
Depreciation of Property, Plant and Equipment	147,738,549	159,440,256
Amortisation of Right-of-Use Assets	202,526,811	-
Amortisation of Intangible Assets	37,439,104	34,370,887
Operating Lease Expenses	-	281,690,193
Administration and Establishment Expenses	650,440,620	553,016,405
Business Development Expenses	378,366,564	308,599,949
Other Expenses (Note 11.2)	1,035,266,502	998,670,847
	2,552,253,935	2,445,747,486

11.1 Directors Emoluments includes Salaries, Bonuses and other related expenses of Chief Executive Officer/Director and fees paid to Non Executive Directors including the Chairman.

11.2 Other Expense includes expenses incurred for insurance, printing, stationery, telephone & internet bills, travelling & transport, maintenance and other premises and administration purposes.

12 TAXES AND LEVIES ON FINANCIAL SERVICES

	2019 Rs.	2018 Rs.
Value Added Tax on Financial Services	643,977,952	562,234,891
Nation Building Tax on Financial Services	68,157,981	74,964,652
Debt Repayment Levy	376,404,255	53,799,093
	1,088,540,188	690,998,636

13 INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31st December 2019 and 31st December 2018 are:

	2019 Rs.	2018 Rs.
Current Tax Expense		
Current Tax Charge of Profit for the Year (Note 13.1)	794,559,093	796,981,258
Over Provisions in respect of Previous Years	(239,754,798)	(168,535,433)
Total Current Tax Expense	554,804,295	628,445,825
Deferred Tax		
Relating to Origination and Reversal of Temporary Differences (Note 13.2)	8,765,609	(260,431,823)
Total Deferred Tax Expense	8,765,609	(260,431,823)
Total Income Tax Expense (Profit or Loss) (Note 13.1)	563,569,904	368,014,002

The income tax liability for the year ended 31st December 2019 have made as per the provisions of the Inland Revenue Act No. 24 of 2017.

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 2019 and 31st December 2018 is as follows:

	2019 Rs.	2018 Rs.
Accounting Profit Before Tax	2,314,138,999	1,909,656,849
At Statutory Income Tax Rate of 28%	647,958,920	534,703,918
Non Deductible Expenses and Amounts	1,195,617,231	1,441,177,259
Deductible Expenses and Amounts	(983,408,844)	(1,125,103,822)
Income not Subject to Tax	(65,608,214)	(29,541,342)
Tax Effect of Business of Finance Leasing -Tax Losses	-	(24,254,755)
Current Tax on Profits (Note 13)	794,559,093	796,981,258
Over Provisions in respect of Previous Years	(239,754,798)	(168,535,433)
Current Tax Expense (Note 13)	554,804,295	628,445,825
Recognition of deferred tax on temporary differences (Note 13.2)	8,765,609	(260,431,823)
Total Income Tax Expense (Note 13)	563,569,904	368,014,002
Effective Income Tax Rate (Excluding Deferred tax and Adjustment for Current Income Tax of Prior Years)	34.33%	41.73%
Effective Income Tax Rate (Including Deferred tax and Adjustment for Current Income Tax of Prior Years)	24.35%	19.27%

Notes to the Financial Statements

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 and Other Comprehensive Income).

	2019			2018			
	Deferred Tax Liabilities/(Assets) (Statement of Financial Position)	Statement of Comprehensive Income		Deferred Tax Liabilities/(Assets) (Statement of Financial Position)	Statement of Comprehensive Income		Statement of Changes in Equity
		Profit or Loss	Other Comprehensive Income		Profit or Loss	Other Comprehensive Income	Impact on Adoption of SLFRS 9
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Lease Rentals Receivable	371,418,895	(90,394,015)	-	461,812,910	(87,229,905)	-	-
Property, Plant and Equipment	475,319,412	(5,721,335)	127,426,030	353,614,717	2,689,594	-	-
Intangible Assets	66,206,859	(5,375,538)	-	71,582,397	17,507,065	-	-
Defined Benefit Plan Obligation	(91,556,473)	(13,041,482)	1,520,137	(80,035,128)	(10,884,685)	7,148,826	-
Impairment on Financial Assets	(659,729,683)	123,297,979	-	(783,027,664)	(177,890,114)	-	(382,382,589)
Tax Losses	(28,878,534)	-	-	(28,878,534)	(4,623,778)	-	-
Total	132,780,476	8,765,609	128,946,167	(4,931,302)	(260,431,823)	7,148,826	(382,382,589)

14 EARNINGS PER SHARE

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

	2019	2018
Profit Attributable to Ordinary Shareholders (Rs.)	1,750,569,095	1,541,642,847
Weighted Average Number of Ordinary Shares in Issue	442,561,629	442,561,629
Basic/Diluted Earnings Per Share (Rs.)	3.96	3.48

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.

There were no dividend payments during the year (2018 - Nil).

15 CASH AND CASH EQUIVALENTS

	2019	2018
	Rs.	Rs.
Cash in Hand (Note 40)	1,475,276,403	1,394,232,445
Balances with Foreign Banks (Note 40)	234,373,360	820,235,019
Less: Allowance for impairment losses (Note 15.1)	(1,380,548)	(361,116)
	1,708,269,215	2,214,106,348

15.1 Allowance for Impairment Losses

Balances with Foreign Banks

The table below shows the credit quality and the maximum exposure to credit risk based on the year-end stage classification. The amounts presented are gross of impairment allowances. The policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.2.2.6.

Stage Classification

	2019 Rs.	2018 Rs.
Balances with Foreign Banks (Note 40)	234,373,360	820,235,019
	234,373,360	820,235,019

All balances held with foreign banks are 'stage 1' assets.

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

Gross Carrying Amount

	2019		
	Balance as at 01/01/2019 Rs.	Net Increase/ (Decrease) during the year Rs.	Balance as at 31/12/2019 Rs.
Balances with Foreign Banks (Note 40)	820,235,019	(585,861,659)	234,373,360
	820,235,019	(585,861,659)	234,373,360

ECL Allowances

	2019		
	ECL Allowances as at 01/01/2019 Rs.	Net Increase/ (Decrease) during the year Rs.	ECL Allowances as at 31/12/2019 Rs.
Balances with Foreign Banks			
Collective	361,116	1,019,432	1,380,548
	361,116	1,019,432	1,380,548

Gross Carrying Amount

	2018		
	Balance as at 01/01/2018 Rs.	Net Increase/ (Decrease) during the year Rs.	Balance as at 31/12/2018 Rs.
Balances with Foreign Banks (Note 40)	260,673,566	559,561,453	820,235,019
	260,673,566	559,561,453	820,235,019

ECL Allowances

	2018		
	ECL Allowances as at 01/01/2018 Rs.	Net Increase/ (Decrease) during the year Rs.	ECL Allowances as at 31/12/2018 Rs.
Balances with Foreign Banks			
Collective	952,587	(591,471)	361,116
	952,587	(591,471)	361,116

The increase/(decrease) in ECL's of the portfolio was driven by changes in the composition of the portfolio and changes in PD's.

16 BALANCES WITH CENTRAL BANK OF SRI LANKA

	2019 Rs.	2018 Rs.
Statutory Deposit with the Central Bank of Sri Lanka	5,333,199,577	6,481,993,762
	5,333,199,577	6,481,993,762

Balances with Central Bank of Sri Lanka represent the cash balances that is required to be maintained as per the provisions of the Section 93 of the Monetary Law Act. The minimum cash reserve requirement of Rupee Deposit liabilities of Domestic Banking Unit as at 31st December 2019 was 5% (2018 - 6%). The statutory Deposit with Central Bank of Sri Lanka is not available for the use in Bank's day to day operations.

17 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the period end and are indicative of neither the market risk nor the credit risk.

	2019			2018		
	Assets Rs.	Liabilities Rs.	Notional Amount Rs.	Assets Rs.	Liabilities Rs.	Notional Amount Rs.
Forward Foreign Exchange Contracts	443,298	107,293	334,452,350	209,701	114,235	775,562,653
	443,298	107,293	334,452,350	209,701	114,235	775,562,653

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 37.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 Rs.	2018 Rs.
Quoted Equities (Note 18.1)	-	11,628,595
Sri Lanka Government Foreign Currency Securities (Note 18.2)	168,176,768	-
	168,176,768	11,628,595

18.1 Quoted Equities

	2018		
	No. of Shares	Cost Rs.	Fair Value Rs.
Vallibel One PLC	684,035	17,100,875	11,628,595
		17,100,875	11,628,595
Carrying Value			11,628,595

18.2 Sri Lanka Government Foreign Currency Securities

	2019	
	Cost Rs.	Fair Value Rs.
Sri Lanka Government Foreign Currency Securities	163,385,951	168,176,768
	163,385,951	168,176,768
Carrying Value		168,176,768

19 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES

	2019 Rs.	2018 Rs.
Gross Loans and Advances (Note 19.1 & Note 19.2)	117,503,175,729	113,494,424,234
Less: Individual Impairment (Note 19.5)	(2,823,009,112)	(2,366,200,677)
Collective Impairment (Note 19.5)	(3,492,311,339)	(2,959,362,092)
	111,187,855,278	108,168,861,465

19.1 Product-wise Analysis

	2019 Rs.	2018 Rs.
Term Loans	76,045,574,825	70,870,588,455
Overdrafts	16,787,688,228	17,936,817,659
Trade Finance	3,664,711,387	4,036,976,250
Lease Rentals Receivable (Note 43.2)	8,627,201,529	9,804,132,849
Others	12,377,999,760	10,845,909,021
Total (Note 19.5)	117,503,175,729	113,494,424,234

Notes to the Financial Statements

19.2 Currency-wise Analysis

	2019 Rs.	2018 Rs.
Sri Lankan Rupee	107,565,116,054	103,345,693,337
United States Dollar	3,904,779,791	3,917,081,950
Japanese Yen	4,495,589,762	4,531,567,755
Euro	1,318,520,888	1,540,219,304
Great Britain Pound	34,874,447	53,485,881
Others	184,294,787	106,376,007
Total (Note 19.5)	117,503,175,729	113,494,424,234

19.3 Industry-wise Analysis

Industry-wise analysis of the Loans and Advances are found in Note 38.2.9.2 (Concentration of Credit Risk - Industry Analysis).

19.4 Individually Impaired Loans and Advances

	2019 Rs.	2018 Rs.
Gross amount of Loans and Advances, individually determined to be impaired, before deducting Impairment Losses	3,814,610,409	3,447,616,959
Less: Individual Impairment Losses	(2,823,009,112)	(2,366,200,677)
Net Exposure	991,601,297	1,081,416,282
Impairment Cover Ratio (Individual Impairment Losses to Gross Individually Impaired Loans & Advances)	74.01%	68.63%
Impaired Loans and Advances Ratio (Individually Impaired Loans and Advances to Gross Loans and Advances)	3.25%	3.04%

19.5 Allowances for Impairment - Loans and Advances

The table below shows year-end stage classification. The amounts presented are gross of impairment allowances. Accounting policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.2.2.6.

Stage Classification

	2019							
	Stage 1		Stage 2		Stage 3		Total	
	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.
Term Loans	-	63,625,104,692	-	5,402,243,857	1,651,287,447	5,366,938,829	1,651,287,447	74,394,287,378
Overdrafts	-	11,484,539,380	-	3,079,109,829	1,314,690,235	909,348,784	1,314,690,235	15,472,997,993
Trade Finance	-	2,897,209,748	-	355,312,591	328,602,455	83,586,593	328,602,455	3,336,108,932
Lease Rentals Receivable	-	3,957,142,209	-	4,420,942,412	-	249,116,908	-	8,627,201,529
Others	-	10,502,693,747	-	728,376,892	520,030,272	626,898,849	520,030,272	11,857,969,488
	-	92,466,689,776	-	13,985,985,581	3,814,610,409	7,235,889,963	3,814,610,409	113,688,565,320

	2018							
	Stage 1		Stage 2		Stage 3		Total	
	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.
Term Loans	-	59,608,416,034	-	6,884,041,583	1,219,717,955	3,158,412,883	1,219,717,955	69,650,870,500
Overdrafts	-	11,958,194,399	-	3,927,798,344	1,142,971,134	907,853,782	1,142,971,134	16,793,846,525
Trade Finance	-	2,899,102,317	-	724,630,608	346,600,992	66,642,333	346,600,992	3,690,375,258
Lease Rentals Receivable	-	4,315,257,759	-	5,007,251,864	206,034,889	275,588,337	206,034,889	9,598,097,960
Others	-	9,385,276,126	-	531,120,374	532,291,990	397,220,531	532,291,990	10,313,617,031
	-	88,166,246,635	-	17,074,842,773	3,447,616,960	4,805,717,866	3,447,616,960	110,046,807,274

There were no purchased or originated credit impaired (POCI) assets within Loans and Advances as at the year end (2018 - Nil).

FINANCIAL AND INVESTOR INFORMATION

Notes to the Financial Statements

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Loans and Advances is as follows:

Gross Carrying Amount

	2019							
	Stage	Balance as at 01/01/2019	Net Increase/ (Decrease) during the year*	Transfers to Stage 1	Transfers to Stage 2	Transfers to Stage 3	Amounts written off during the year	Balance as at 31/12/2019
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Term Loans								
Individual	Stage 1	-	157,092,179	-	-	(157,092,179)	-	-
	Stage 2	-	44,504,218	-	-	(44,504,219)	-	-
	Stage 3	1,219,717,955	216,453,094	-	13,520,000	201,596,398	-	1,651,287,447
Collective	Stage 1	59,608,416,034	4,974,038,141	1,484,587,767	(1,871,609,800)	(570,327,450)	-	63,625,104,692
	Stage 2	6,884,041,583	(1,566,306,870)	(1,402,510,850)	1,952,031,030	(465,011,036)	-	5,402,243,857
	Stage 3	3,158,412,883	1,358,683,174	(82,076,917)	(93,941,230)	1,035,338,486	(9,477,567)	5,366,938,829
Overdrafts								
Individual	Stage 1	-	48,816,874	-	-	(48,816,874)	-	-
	Stage 2	-	20,322,407	-	-	(20,322,407)	-	-
	Stage 3	1,142,971,134	102,579,820	-	-	69,139,281	-	1,314,690,235
Collective	Stage 1	11,958,194,399	47,995,583	1,299,856,197	(1,740,766,400)	(80,740,399)	-	11,484,539,380
	Stage 2	3,927,798,344	(1,126,439,844)	(1,271,506,268)	1,752,951,808	(203,694,211)	-	3,079,109,829
	Stage 3	907,853,782	(242,404,271)	(28,349,929)	(12,185,408)	284,434,610	-	909,348,784
Trade Finance								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	346,600,992	(17,998,537)	-	-	-	-	328,602,455
Collective	Stage 1	2,899,102,317	11,054,123	-	-	(12,946,692)	-	2,897,209,748
	Stage 2	724,630,608	(365,930,583)	-	-	(3,387,434)	-	355,312,591
	Stage 3	66,642,333	610,134	-	-	16,334,126	-	83,586,593
Lease Rentals Receivable								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	206,034,889	(206,034,889)	-	-	-	-	-
Collective	Stage 1	4,315,257,759	96,102,321	434,163,188	(880,881,952)	(7,499,107)	-	3,957,142,209
	Stage 2	5,007,251,864	(958,204,001)	(431,809,710)	917,181,412	(113,477,153)	-	4,420,942,412
	Stage 3	275,588,337	(20,191,070)	(2,353,478)	(36,299,460)	120,976,260	(88,603,681)	249,116,908
Others								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	532,291,990	(12,261,718)	-	-	-	-	520,030,272
Collective	Stage 1	9,385,276,126	1,568,639,909	138,733,622	(383,779,874)	(206,176,036)	-	10,502,693,747
	Stage 2	531,120,374	69,380,166	(130,093,368)	387,116,228	(129,146,508)	-	728,376,892
	Stage 3	397,220,531	(92,835,580)	(8,640,254)	(3,336,354)	335,322,544	(832,037)	626,898,849
		113,494,424,234	4,107,664,780	-	-	-	(98,913,285)	117,503,175,729

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

ECL Allowances

	Stage	Balance as at 01/01/2019 Rs.	Charge / (Reversals) during the Year Rs.	Amounts Written Off Rs.	Balance as at 31/12/2019 Rs.
		2019			
Term Loans					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	784,212,116	352,903,826	-	1,137,115,942
Collective	Stage 1	419,675,798	(117,244,444)	-	302,431,354
	Stage 2	281,524,969	(76,977,425)	-	204,547,544
	Stage 3	608,272,526	524,547,356	(9,477,567)	1,123,342,315
Overdrafts					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	816,652,326	205,724,395	-	1,022,376,721
Collective	Stage 1	402,000,131	(11,234,961)	-	390,765,170
	Stage 2	191,205,739	(27,163,989)	-	164,041,750
	Stage 3	337,483,542	76,885,386	-	414,368,928
Trade Finance					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	186,008,920	(10,935,083)	-	175,073,837
Collective	Stage 1	8,214,897	(1,816,690)	-	6,398,207
	Stage 2	12,772,003	(6,843,955)	-	5,928,048
	Stage 3	7,395,938	2,879,363	-	10,275,301
Lease Rentals Receivable					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	74,446,037	(74,446,037)	-	-
Collective	Stage 1	18,765,598	(3,715,044)	-	15,050,554
	Stage 2	47,641,351	(13,895,687)	-	33,745,664
	Stage 3	37,713,537	88,965,752	(88,603,681)	38,075,608
Others					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	504,881,278	(16,438,666)	-	488,442,612
Collective	Stage 1	335,722,638	(69,299,665)	-	266,422,973
	Stage 2	65,981,398	22,236,696	-	88,218,094
	Stage 3	184,992,027	244,539,839	(832,037)	428,699,829
		5,325,562,769	1,088,670,967	(98,913,285)	6,315,320,451

The increase/(decrease) in ECL's of the portfolios were driven by an increase/(decrease) in the gross size of the portfolio/exposures, movements between stages as a result of the change in credit risk, changes in Probability of Defaults, Loss Given Defaults, Credit Conversion Factors and changes in economic conditions.

Gross Carrying Amount

	Stage	2018						
		Balance as at 01/01/2018	Net Increase/ (Decrease) during the year*	Transfers to Stage 1	Transfers to Stage 2	Transfers to Stage 3	Amounts written off during the year	Balance as at 31/12/2018
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Term Loans								
Individual	Stage 1	25,497,768	(800,000)	(24,697,768)	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	576,455,918	378,448,993	61,877,550	246,576,164	(43,640,670)	-	1,219,717,955
Collective	Stage 1	52,072,280,414	9,538,759,348	1,054,203,522	(2,293,262,639)	(763,564,611)	-	59,608,416,034
	Stage 2	4,427,523,136	1,870,409,401	(1,033,206,025)	2,072,641,310	(453,326,239)	-	6,884,041,583
	Stage 3	1,786,111,020	197,936,650	(58,177,279)	(25,954,835)	1,260,531,520	(2,034,193)	3,158,412,883
Overdrafts								
Individual	Stage 1	83,418	-	(83,418)	-	-	-	-
	Stage 2	106	-	-	(106)	-	-	-
	Stage 3	710,616,928	(32,536,283)	260,345,887	124,318,169	80,226,433	-	1,142,971,134
Collective	Stage 1	12,769,579,463	1,530,705,525	792,678,009	(2,846,172,483)	(288,596,115)	-	11,958,194,399
	Stage 2	3,503,306,181	(1,414,363,344)	(921,780,297)	2,797,770,152	(37,134,348)	-	3,927,798,344
	Stage 3	719,519,887	149,905,778	(131,160,181)	(75,915,732)	245,504,030	-	907,853,782
Trade Finance								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	281,216,253	5,240,336	53,612,152	6,532,251	-	-	346,600,992
Collective	Stage 1	2,739,375,385	181,811,342	(10,487,004)	-	(11,597,406)	-	2,899,102,317
	Stage 2	928,572,547	(134,415,198)	(43,125,148)	(6,532,251)	(19,869,342)	-	724,630,608
	Stage 3	597,625,540	(562,449,955)	-	-	31,466,748	-	66,642,333
Lease Rentals Receivable								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	110,187,133	3,920,734	91,927,022	-	-	206,034,889
Collective	Stage 1	4,015,955,127	688,871,469	488,743,504	(845,586,352)	(32,725,989)	-	4,315,257,759
	Stage 2	5,167,467,476	(349,326,167)	(487,479,336)	788,929,783	(112,339,892)	-	5,007,251,864
	Stage 3	266,214,582	(75,881,572)	(5,184,902)	(35,270,453)	145,065,881	(19,355,199)	275,588,337
Others								
Individual	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	485,834,561	88,783,293	-	-	(42,325,864)	-	532,291,990
Collective	Stage 1	8,516,960,869	1,199,525,798	127,365,318	(295,802,155)	(162,773,704)	-	9,385,276,126
	Stage 2	873,148,543	(408,136,285)	(125,650,839)	299,276,235	(107,517,280)	-	531,120,374
	Stage 3	243,751,221	858,430	(1,714,479)	(3,474,080)	312,616,848	(154,817,409)	397,220,531
		100,707,096,343	12,963,534,692	-	-	-	(176,206,801)	113,494,424,234

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

ECL Allowances

	Stage	Balance as at 01/01/2018	Charge / (Reversals) during the Year	Amounts Written Off	Balance as at 31/12/2018
		2018			
		Rs.	Rs.	Rs.	Rs.
Term Loans					
Individual	Stage 1	714,245	(714,245)	-	-
	Stage 2	-	-	-	-
	Stage 3	226,108,759	558,103,357	-	784,212,116
Collective	Stage 1	317,775,496	101,900,302	-	419,675,798
	Stage 2	203,648,143	77,876,826	-	281,524,969
	Stage 3	346,787,531	263,519,188	(2,034,193)	608,272,526
Overdrafts					
Individual	Stage 1	6,397	(6,397)	-	-
	Stage 2	-	-	-	-
	Stage 3	437,237,078	379,415,248	-	816,652,326
Collective	Stage 1	371,098,405	30,901,726	-	402,000,131
	Stage 2	225,570,680	(34,364,941)	-	191,205,739
	Stage 3	312,945,173	24,538,369	-	337,483,542
Trade Finance					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	89,073,335	96,935,585	-	186,008,920
Collective	Stage 1	9,807,679	(1,592,782)	-	8,214,897
	Stage 2	36,974,749	(24,202,746)	-	12,772,003
	Stage 3	85,972,466	(78,576,528)	-	7,395,938
Lease Rentals Receivable					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	-	74,446,037	-	74,446,037
Collective	Stage 1	3,850,967	14,914,631	-	18,765,598
	Stage 2	37,763,031	9,878,320	-	47,641,351
	Stage 3	70,649,587	(13,580,851)	(19,355,199)	37,713,537
Others					
Individual	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	315,760,897	189,120,381	-	504,881,278
Collective	Stage 1	224,262,578	111,460,060	-	335,722,638
	Stage 2	60,015,385	5,966,013	-	65,981,398
	Stage 3	126,635,146	213,174,290	(154,817,409)	184,992,027
		3,502,657,727	1,999,111,843	(176,206,801)	5,325,562,769

The increase/(decrease) in ECL's of the portfolios were driven by an increase/(decrease) in the gross size of the portfolio/exposures, movements between stages as a result of the change in credit risk, changes in Probability of Defaults, Loss Given Defaults, Credit Conversion Factors and changes in economic conditions.

20 FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

	2019 Rs.	2018 Rs.
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds (Note 20.3)	12,857,565,412	20,874,625,206
Less: Allowance for impairment losses (Note 20.3)	-	-
Debentures - Quoted (Note 20.3)	1,619,436,757	1,619,436,757
Less: Allowance for impairment losses (Note 20.3)	(1,021,292)	(626,587)
Securities Purchased Under Resale Agreements (Note 20.3)	63,557,464	848,270,844
Less: Allowance for impairment losses (Note 20.3)	-	-
Sri Lanka Government Foreign Currency Securities (Note 20.3)	15,665,886,271	10,816,056,405
Less: Allowance for impairment losses (Note 20.3)	(125,336,151)	(83,205,046)
	30,080,088,461	34,074,557,579

20.1 Currency-wise Analysis (Gross)

	2019 Rs.	2018 Rs.
Sri Lankan Rupee	14,540,559,633	23,342,332,807
United States Dollar	15,665,886,271	10,816,056,405
	30,206,445,904	34,158,389,212

20.2 Collateralisation-wise Analysis (Gross)

	2019 Rs.	2018 Rs.
Pledged as Collateral	2,411,961,297	3,307,795,600
Un-encumbered	27,794,484,607	30,850,593,612
	30,206,445,904	34,158,389,212

20.3 Allowance for Impairment - Debt and Other Instruments

The table below shows the credit quality and the maximum exposure to credit risk based on the product and year-end stage classification. The amounts presented are gross of impairment allowances. Accounting Policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.2.2.6.

Stage Classification

	2019				2018			
	Stage 1		Total		Stage 1		Total	
	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.	Individual Rs.	Collective Rs.
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds	-	12,857,565,412	-	12,857,565,412	-	20,874,625,206	-	20,874,625,206
Quoted Debentures	-	1,619,436,757	-	1,619,436,757	-	1,619,436,757	-	1,619,436,757
Securities Purchased under Resale Agreements	-	63,557,464	-	63,557,464	-	848,270,844	-	848,270,844
Sri Lanka Government Foreign Currency Securities	-	15,665,886,271	-	15,665,886,271	-	10,816,056,405	-	10,816,056,405
Total	-	30,206,445,904	-	30,206,445,904	-	34,158,389,212	-	34,158,389,212

All Debt Instruments at Amortised Cost are 'Stage 1' assets.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Debt and Other Instruments at amortised cost is, as follows:

Gross Carrying Amount

	2019			2018		
	Balance as at 01/01/2019 Rs.	Net Increase/ (Decrease) During the Year Rs.	Balance as at 31/12/2019 Rs.	Balance as at 01/01/2018 Rs.	Net Increase/ (Decrease) During the Year Rs.	Balance as at 31/12/2018 Rs.
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds						
Collective	20,874,625,206	(8,017,059,794)	12,857,565,412	12,287,192,426	8,587,432,780	20,874,625,206
Debentures - Quoted						
Collective	1,619,436,757	-	1,619,436,757	1,997,500,223	(378,063,466)	1,619,436,757
Securities Purchased under Resale Agreements						
Collective	848,270,844	(784,713,380)	63,557,464	186,289,553	661,981,291	848,270,844
Sri Lanka Government Foreign Currency Securities						
Collective	10,816,056,405	4,849,829,866	15,665,886,271	8,865,418,440	1,950,637,965	10,816,056,405
	34,158,389,212	(3,951,943,308)	30,206,445,904	23,336,400,642	10,821,988,570	34,158,389,212

ECL Allowances

	Balance as at 01/01/2019 Rs.	Charge for the Year Rs.	Balance as at 31/12/2019 Rs.	Balance as at 01/01/2018 Rs.	Charge for the Year Rs.	Balance as at 31/12/2018 Rs.
Sri Lanka Government Rupee Securities - Treasury Bills and Bonds						
Collective	-	-	-	-	-	-
Debentures - Quoted						
Collective	626,588	394,704	1,021,292	615,295	11,293	626,588
Securities Purchased Under Resale Agreements						
Collective	-	-	-	-	-	-
Sri Lanka Government Foreign Currency Securities						
Collective	83,205,045	42,131,106	125,336,151	49,452,341	33,752,704	83,205,045
	83,831,633	42,525,810	126,357,443	50,067,636	33,763,997	83,831,633

The changes in ECLs of the portfolio is driven by an increase/(decrease) in the gross size of the portfolio, changes in default probabilities (PD's) and deterioration of economic conditions.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 Rs.	2018 Rs.
Equities - Unquoted (Note 21.1)	6,157,847	6,157,847
	6,157,847	6,157,847

All unquoted FVOCI instruments are recorded at cost since its, fair value cannot be reliably estimated. There is no market for these instruments, and the Bank intends to hold these for long term.

21.1 Equities - Unquoted

	2019		2018	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
Credit Information Bureau of Sri Lanka (CRIB)	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 (LFSB)	100,000	1,000,000	100,000	1,000,000
		6,157,847		6,157,847

22 PROPERTY, PLANT AND EQUIPMENT

22.1 Cost/Fair Value

	Freehold Land Rs.	Freehold Buildings Rs.	Office Equipments Rs.	Computer Hardware & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
As at 1st January 2019	1,014,910,000	448,141,000	432,694,231	592,618,318	685,401,913	20,297,620	3,194,063,082
Additions	-	-	37,277,240	13,620,006	47,429,233	-	98,326,479
Revaluation	387,250,000	33,434,000	-	-	-	-	420,684,000
Disposals	-	-	(39,260,778)	(88,535,022)	(53,613,592)	-	(181,409,392)
As at 31st December 2019	1,402,160,000	481,575,000	430,710,693	517,703,302	679,217,554	20,297,620	3,531,664,169

22.2 Depreciation & Impairment

	Freehold Land Rs.	Freehold Buildings Rs.	Office Equipments Rs.	Computer Hardware & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
As at 1st January 2019	-	19,123,055	341,189,082	415,932,749	473,383,303	9,860,954	1,259,489,143
Depreciation Charge for the Year	-	15,285,908	27,899,339	46,971,657	53,541,645	4,040,000	147,738,549
Revaluation	-	(34,408,963)	-	-	-	-	(34,408,963)
Disposals	-	-	(38,072,335)	(87,414,335)	(49,629,003)	-	(175,115,673)
As at 31st December 2019	-	-	331,016,086	375,490,071	477,295,945	13,900,954	1,197,703,056

There were no impairment losses recognised on Property, Plant and Equipment as at 31st December 2019. (2018-Nil).

22.3 Net Book Value

	Freehold Land Rs.	Freehold Buildings Rs.	Office Equipments Rs.	Computer Hardware & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
As at 31st December 2018	1,014,910,000	429,017,945	91,505,149	176,685,569	212,018,610	10,436,666	1,934,573,939
As at 31st December 2019	1,402,160,000	481,575,000	99,694,607	142,213,231	201,921,609	6,396,666	2,333,961,113

22.4 There were no capital work in progress outstanding as at the Statement of Financial Position Date. (2018- Nil)

22.5 Freehold Land and Building - Addresses, Locations and Extents

Address	Extent		31st December 2019 Revalued Amount		31st December 2018 Revalued Amount	
	Land (Perches)	Building (Square Feet)	Land Rs.	Building Rs.	Land Rs.	Building Rs.
No: 450, Galle Road, Colombo 03	23.66	41,420	556,010,000	465,975,000	437,710,000	434,491,000
No: 08, Sea Avenue, Colombo 03	18.55	-	333,900,000	-	222,600,000	-
No: 10, Sea Avenue, Colombo 03	19.80	-	346,500,000	-	237,600,000	-
No: 12 & 12 1/1, Sea Avenue, Colombo 03	9.75	3,900	165,750,000	15,600,000	117,000,000	13,650,000
Total (Note 37.2)			1,402,160,000	481,575,000	1,014,910,000	448,141,000

Notes to the Financial Statements

22.6 All Freehold Land and Building owned by the Bank have been revalued by Mr. J.M.S. Bandara, an Independent Chartered Valuation Surveyor having recent experience of the location and the category of the assets valued. Details of Revalued properties are disclosed in Note 22.8. Revaluation surplus arising out of the revaluation has been transferred to Revaluation Reserve.

Significant Un Observable valuation Input
Land: Price Per Perch Rs. 17,000,000 - Rs. 23,500,000/-
Building : Monthly rent per square feet - Rs. 175/-

Significant increase/decrease in estimated price per perch/rent per square feet would result in a significant higher/lower fair value of land and buildings.

Other fair value related disclosures on Revalued Land and Building are provided in Note 37.2.

22.7 The Carrying amount of revalued Land and Building, if they were carried at cost less depreciation, would be as follows;

	2019			2018		
	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	69,271,638	153,980,889	223,252,527	63,690,325	159,562,202
Total	636,905,085	69,271,638	567,633,447	636,905,085	63,690,325	573,214,760

22.8 Details of the Land and Building stated at revalued amounts as at 31st December 2019 are given below;

Location/Address	Valuer Name	Date of Valuation	Method of Valuation	Land		Building	
				Cost	Revalued Amount	Cost	Revalued Amount
				Rs.	Rs.	Rs.	Rs.
No 450, Galle Road, Colombo 03	Mr.J.M.S.Bandara	31st December 2019	Investment Method/ Income Method	183,969,895	556,010,000	212,332,737	465,975,000
No: 08, Sea Avenue, Colombo 03	Mr.J.M.S.Bandara	31st December 2019	Investment Method/ Income Method	106,166,453	333,900,000	-	-
No: 10, Sea Avenue, Colombo 03				82,437,000	346,500,000	-	-
No: 12 & 12 1/1, Sea Avenue, Colombo 03				41,079,210	165,750,000	10,919,790	15,600,000

22.9 A class wise analysis of the cost/fair value of fully depreciated Property, Plant and Equipment of the Bank which are still in use at the date of the Statement of Financial Position are as follows;

	2019 Rs.	2018 Rs.
Office Equipments	258,525,046	259,035,280
Computer Hardware and Equipments	208,049,923	270,747,227
Furniture & Fittings	265,602,420	263,687,095
Motor Vehicles	97,620	97,620
Total	732,275,009	793,567,222

22.10 There were no Property, Plant and Equipment identified as temporarily idle as at the date of the Statement of Financial Position (2018- Nil).

22.11 The following Property, Plant and Equipment were retired from active use as at the Date of the Statement of Financial Position.

	2019 Rs.	2018 Rs.
Computer Hardware and Equipments	17,368,526	21,461,123
	17,368,526	21,461,123

22.12 There were no restrictions on the title of Property, Plant and Equipments as at the Statement of Financial Position date (2018 - Nil).

22.13 There were no items of Property, Plant and Equipments pledged as securities against liabilities as at the Statement of Financial Position date (2018 - Nil).

23 RIGHT-OF-USE ASSETS*

23.1 Assets hold under lease have been recognised as Right-of-Use Assets under SLFRS 16.

	2019 Rs.
Assets as at 1st January 2019 - Effect of adoption of SLFRS 16	1,086,495,125
Impact of New Leases	27,868,486
Amortisation Charge for the Year	(202,526,811)
Assets as at 31st December 2019	911,836,800

23.2 Corresponding liability for the Right- of-Use assets has been recognised under other liabilities.

	2019 Rs.
Lease Liabilities as at 1st January 2019	1,006,839,907
Impact of New Leases	23,711,120
Accretion of interest	101,630,636
Rentals paid during the year	(308,001,450)
Lease Liabilities as at 31st December 2019 (Note 30)	824,180,213

* The amounts for the year ended 31st December 2019 have been prepared in accordance with SLFRS 16: Leases where as prior period figures have not been restated.

23.3 Maturity Analysis of Lease Liabilities

	2019		
	Amount Repayable within one year Rs.	Amount Repayable after one year Rs.	Total Rs.
Gross Lease	247,251,661	937,421,916	1,184,673,577
Finance Charges Allocated to Future Periods	(53,383,442)	(307,109,922)	(360,493,364)
Net Lease Liabilities	193,868,219	630,311,994	824,180,213

23.4 Sensitivity on Assumption in Right-of-Use Assets

The following table demonstrates the sensitivity to a possible changes in key assumptions employed with all other variables held constant in the Right-of-Use assets and Lease Liabilities as at 31st December 2019. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the incremental borrowing rate on the profit or loss and Right-of-Use assets/Lease Liabilities for the year.

	2019			
	Sensitivity Effect on Statement of Financial Position		Sensitivity Effect on Statement of Comprehensive Income	
	Right-of-Use Assets Rs.	Lease Liabilities Rs.	Depreciation Rs.	Interest Expense Rs.
Increase/(Decrease) in Incremental Borrowing Rate				
1%	(23,840,210)	(21,472,422)	(4,628,330)	6,636,158
(1%)	24,944,081	22,349,103	4,434,074	(7,029,052)

24 INTANGIBLE ASSETS

Computer Software

24.1 Cost

	Total Rs.
As at 1st January 2019	559,428,457
Additions	13,207,997
Disposals	-
As at 31st December 2019	572,636,454

24.2 Amortisation

	Total Rs.
As at 1st January 2019	254,345,376
Amortisation Charge for the Year	37,439,104
Disposals	-
As at 31st December 2019	291,784,480

24.3 Net Book Value

	Total Rs.
As at 1st January 2019	305,083,081
As at 31st December 2019	280,851,974

24.4 Intangible Assets include the Cost of Core Banking Software Licenses and Other Software.

24.5 There were no intangible asset items pledged as a security against liabilities as at the date of the Statement of Financial Position (2018 - Nil).

24.6 There were no borrowing costs directly related to intangible assets acquired during the year (2018 - Nil).

24.7 There were no impairment losses recognised to profit or loss during the year with regard to intangible assets (2018 - Nil).

25 OTHER ASSETS

	2019 Rs.	2018 Rs.
Deposits and Prepayments	294,257,310	289,873,364
Prepaid Staff Cost	408,030,803	328,140,367
Other Receivables (Note 25.1)	266,567,032	206,165,473
	968,855,145	824,179,204

25.1 Other receivables includes statutory receivables and other balances due in the ordinary course of business.

26 DUE TO BANKS

	2019 Rs.	2018 Rs.
Call Money Borrowings	136,045,959	980,579,768
Re-finance Borrowings	216,860,262	179,595,889
Balances with Foreign Banks	168,930,121	584,031,188
	521,836,342	1,744,206,845

The Bank has not had any defaults with regard to capital, interest or any other term/condition with regard to above borrowings.

27 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS

	2019 Rs.	2018 Rs.
Due to Depositors (Note 27.1 and Note 27.2)	122,544,024,040	118,627,348,744
	122,544,024,040	118,627,348,744

Notes to the Financial Statements

27.1 Product - wise Analysis

	2019 Rs.	2018 Rs.
Demand Deposits	4,375,635,515	4,871,474,859
Savings Deposits	16,910,775,122	14,404,715,250
Time Deposits	97,528,927,459	94,475,048,539
Certificate of Deposits	3,521,230,309	4,359,722,898
Margin Deposits	207,455,635	516,387,198
Total (Note 27)	122,544,024,040	118,627,348,744

27.2 Currency - wise Analysis

	2019 Rs.	2018 Rs.
Sri Lankan Rupee	111,342,539,400	107,090,457,200
United States Dollar	8,940,127,518	9,369,827,117
Great Britain Pound	1,128,330,753	470,826,151
Australian Dollar	658,804,827	830,050,498
Euro	313,583,868	171,521,061
Others	160,637,674	694,666,717
Total (Note 27)	122,544,024,040	118,627,348,744

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

	2019 Rs.	2018 Rs.
Securities Sold under Repurchase Agreements (Note 28.1)	2,382,654,921	3,091,635,968
Unsecured Term Facility Borrowings	9,512,176,841	10,203,968,478
Standing Lending Facility Borrowings	50,010,989	-
	11,944,842,751	13,295,604,446

The Bank has not had any defaults with regard to capital, interest or any other term/condition with regard to above borrowings.

28.1 Securities Sold under Repurchase Agreements

	2019 Rs.	2018 Rs.
Due to Banks	-	1,500,000,000
Due to Other Customers	2,382,654,921	1,591,635,968
Total (Note 28)	2,382,654,921	3,091,635,968

28.2 Unsecured Term Facility Borrowings - Capital

	Senior		Total
	Fixed	Floating	
	Rs.	Rs.	Rs.
As at 1st January 2019	2,061,094,225	8,133,750,000	10,194,844,225
Receipts during the year	-	362,760,000	362,760,000
Repayments during the year	-	(1,000,000,000)	(1,000,000,000)
Exchange Rate Difference	-	(58,725,000)	(58,725,000)
As at 31st December 2019	2,061,094,225	7,437,785,000	9,498,879,225

28.3 Details of Unsecured Term Facility Borrowings as at 31st December 2019 - Capital

Lender	Receipt Date	Maturity Date	Rate of Interest	Amount Outstanding	
				Original Loan Currency	Local Currency
					Rs.
GCPF	01st October 2013	30th September 2020	6 Month LIBOR + 4%	USD 10,000,000	1,813,800,000
GCPF	03rd September 2015	2nd September 2022	6 Month LIBOR + 4%	USD 10,000,000	1,813,800,000
GCPF	06th October 2017	7th October 2024	6 Month LIBOR + 3.75%	USD 2,000,000	362,760,000
GCPF	22nd December 2017	7th October 2024	6 Month LIBOR + 3.75%	USD 5,000,000	906,900,000
MSME	19th December 2016	18th December 2021	3 Month LIBOR + 4%	USD 9,250,000	1,677,765,000
MSME	21st December 2016	19th July 2021	11.50%	Rs. 1,191,000,000	1,191,000,000
MSME	9th July 2018	29th September 2021	11.25%	Rs. 870,094,225	870,094,225
National Savings Bank	04th June 2018	04th June 2020	Weekly AWPLR + 2.5% (Re-priced Quarterly)	Rs. 500,000,000	500,000,000
Commerzbank, Germany	12th December 2019	12th June 2020	6 Month LIBOR + 1.65%	USD 2,000,000	362,760,000
					9,498,879,225

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

29 OTHER PROVISIONS AND ACCRUALS

	2019	2018
	Rs.	Rs.
Utility Payables	86,377,769	92,074,624
Other Accruals	101,224,830	116,323,388
	187,602,599	208,398,012

Notes to the Financial Statements

30 OTHER LIABILITIES

	2019 Rs.	2018 Rs.
Cheque Pending Realisation	4,492,219	10,236,962
Claims Payable	242,528,920	194,855,631
Allowance for Impairment on Guarantees and Documentary Credit (Note 30.1)	13,026,964	8,400,315
Defined Benefit Plan - Retiring Gratuity Obligation (Note 31.2)	326,987,404	285,839,742
Lease Liabilities (Note 23.2)*	824,180,213	-
Other Creditors	2,156,210,671	1,809,713,434
	3,567,426,391	2,309,046,084

Other creditors includes tax (other than income tax) & other statutory payables and other miscellaneous payables in the ordinary course of business.

* The amounts for the year ended 31st December 2019 have been prepared in accordance with SLFRS 16: Leases whereas prior period figures have not been restated.

30.1 Provision for Impairment (ECL) on Financial Guarantees and Documentary Credit

	ECL Allowances as at 01/01/2019 Rs.	Charge for the Year Rs.	ECL Allowances as at 31/12/2019 Rs.	ECL Allowances as at 01/01/2018 Rs.	Reversal for the Year Rs.	ECL Allowances as at 31/12/2018 Rs.
Financial Guarantees						
Collective	6,508,612	340,071	6,848,683	14,642,330	(8,133,718)	6,508,612
Documentary Credit						
Collective	1,891,703	4,286,578	6,178,281	8,250,339	(6,358,636)	1,891,703
	8,400,315	4,626,649	13,026,964	22,892,669	(14,492,354)	8,400,315

The nominal values of Financial Guarantees and Documentary Credit are disclosed in Note 42.

All Financial Guarantees and Documentary Credit are considered to be 'stage 1' exposures.

The changes in ECLs of the Financial Guarantees and Documentary Credit were driven by the changes in gross size of the portfolios, changes in PDs', LGDs', CCF's and changes in economic conditions.

31 DEFINED BENEFIT PLAN - RETIRING GRATUITY OBLIGATION

The amounts recognised in the Statement of Comprehensive Income in respect of Defined Benefit Plan Costs are as follows;

31.1 Defined Benefit Plan Expense

	2019 Rs.	2018 Rs.
Service Cost		
Current Service Cost	37,635,802	39,458,480
Interest Expense	34,300,769	27,249,739
Components recognised in the Profit or Loss (Note 10)	71,936,571	66,708,219
Re-measurement of Net Defined Benefit Obligations		
Actuarial (Gains)/Losses	(5,429,059)	(25,531,522)
Components recognised in Other Comprehensive Income	(5,429,059)	(25,531,522)

31.2 Defined Benefit Plan - Retiring Gratuity Obligations

The movements in the present value of the Defined Benefit Plan Obligation are as follows:

	2019 Rs.	2018 Rs.
Balance at the Beginning of the Year	285,839,742	272,497,390
Current Service Cost	37,635,802	39,458,480
Interest Cost	34,300,769	27,249,739
Actuarial (Gains)/Losses Due to Changes in Assumptions	(5,429,059)	(25,531,522)
Benefits Paid during the Year	(25,359,850)	(27,834,345)
Balance at the End of the Year (Note 30)	326,987,404	285,839,742

Actuarial Valuation of Retiring Gratuity Obligation as at 31 December 2019 was carried out by Mr. Pushpakumara Gunasekera, AIAA on behalf of Messrs. Smiles Global (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;

	2019	2018
Discount Rate	10 % p.a	12 % p.a
Salary Increment Rate	8 % p.a	9 % p.a

The demographic assumptions underlying the valuation are retirement age (55 years), staff turnover rate (15%), 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.

Notes to the Financial Statements

Defined Benefit Plan Obligation is not externally funded, hence no contributions are expected for year 2019. The Defined Benefit Plan Obligation is recorded under 'Other Liabilities' in the Statement of Financial Position. Actuarial Gains/(Losses) on Defined Benefit Plan is recognised in Other Comprehensive Income for the year.

31.3 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible changes in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement as at 31st December 2019. 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.

		2019		2018	
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income (OCI)	Sensitivity Effect on Defined Benefit Obligation	Sensitivity Effect on Statement of Comprehensive Income (OCI)	Sensitivity Effect on Defined Benefit Obligation
		Rs.	Rs.	Rs.	Rs.
1%	-	13,824,240	(13,824,240)	10,422,916	(10,422,916)
(1%)	-	(15,133,669)	15,133,669	(11,307,941)	11,307,941
-	1%	(16,775,545)	16,775,545	(12,561,795)	12,561,795
-	(1%)	15,567,793	(15,567,793)	11,758,036	(11,758,036)

31.4 Maturity Profile of Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at date of Statement of Financial Position is given below;

	2019	2018
Weighted Average Duration of Defined Benefit Obligation (Years)	4.57	4.61
Average Time to Benefit Payout (Years)	6.16	5.51

31.5 Distribution of Defined Benefit Obligation Over Future Lifetime

The following table demonstrates distribution of the future working lifetime of the Defined Benefit Obligation as at the Statement of Financial Position Date.

	2019	2018
	Rs.	Rs.
Less than 1 year	11,866,498	12,096,231
Between 1 - 2 years	16,860,060	8,641,174
Between 2 - 5 years	78,287,596	91,791,324
Over 5 years	219,973,250	173,311,013
	326,987,404	285,839,742

32 DEBENTURES ISSUED

32.1 Amortised Cost

	2019 Rs.	2018 Rs.
Unsecured, Subordinated, Redeemable Debentures	-	3,045,450,903
Unsecured, Senior, Redeemable Debentures	-	2,763,735,250
Total	-	5,809,186,153

All above debentures were denominated in Sri Lankan Rupees.

32.2 Capital

	Subordinated		Senior		
	Fixed Rs.	Floating Rs.	Fixed Rs.	Floating Rs.	Total Rs.
As at 1st January 2019	3,000,000,000	-	1,855,674,100	835,181,200	5,690,855,300
Redeemed during the Year	(3,000,000,000)	-	(1,855,674,100)	(835,181,200)	(5,690,855,300)
As at 31st December 2019	-	-	-	-	-

The Bank has not had any defaults of principal, interest or other breaches with regard to debentures during the year.

33 STATED CAPITAL

Ordinary Voting Shares

	2019		2018	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
As at 1st January	442,561,629	3,614,253,304	442,561,629	3,614,253,304
Shares Issued during the Year	-	-	-	-
As at 31st December	442,561,629	3,614,253,304	442,561,629	3,614,253,304

34 REVALUATION RESERVES

	Rs.
As at 1st January 2018	630,633,294
Realisation of Revaluation Reserve	(6,820,753)
As at 1st January 2019	623,812,541
Revaluation of Freehold Land and Building	327,666,933
Realisation of Revaluation Reserve	(6,820,753)
As at 31st December 2019	944,658,721

35 STATUTORY RESERVE FUND

	Rs.
As at 1st January 2018	374,106,451
Transferred during the Year 2018	77,082,142
As at 1st January 2019	451,188,593
Transferred during the Year 2019	87,528,455
As at 31st December 2019	538,717,048

35.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required by Section 20 (1) & (2) of the Banking Act No. 30 of 1988. A sum equivalent to 5% of the Profit after tax (Profit for the Year) should be transferred to the Reserve until the reserve is equal to 50% of the paid up capital of the Bank and thereafter a sum equivalent to 2% of such profits until the amount of reserve is equal to the paid up capital of the Bank. This Reserve Fund will be used only for the purpose specified in Section 20 (2) of the Banking Act No. 30 of 1988.

36 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

Financial assets and financial liabilities are measured on an ongoing basis at either fair value or amortised cost. The summary of significant accounting policies in Note 2 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category as defined in SLFRS 9 - Financial Instruments and by Statement of Financial Position heading:

As at 31st December 2019	Financial Assets at Fair Value through Profit or Loss	Financial Assets at Fair Value through Other Comprehensive Income	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	-	-	1,708,269,215	-	1,708,269,215
Balances with Central Bank of Sri Lanka	-	-	5,333,199,577	-	5,333,199,577
Derivative Financial Instruments	-	-	-	443,298	443,298
Financial Assets at FVPL	168,176,768	-	-	-	168,176,768
Loans and Advances	-	-	111,187,855,278	-	111,187,855,278
Debt and Other Instruments	-	-	30,080,088,461	-	30,080,088,461
Financial Assets at FVOCI	-	6,157,847	-	-	6,157,847
Total Financial Assets	168,176,768	6,157,847	148,309,412,531	443,298	148,484,190,444
Financial Liabilities					
Due to Banks	-	-	521,836,342	-	521,836,342
Derivative Financial Instruments	-	-	-	107,293	107,293
Due to Depositors	-	-	122,544,024,040	-	122,544,024,040
Due to Debt Securities Holders	-	-	11,944,842,751	-	11,944,842,751
Other Liabilities	-	-	863,074,300	-	863,074,300
Total Financial Liabilities	-	-	135,873,777,433	107,293	135,873,884,726

As at 31st December 2018	Financial Assets at Fair Value through Profit or Loss	Financial Assets at Fair Value through Other Comprehensive Income	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	-	-	2,214,106,348	-	2,214,106,348
Balances with Central Bank of Sri Lanka	-	-	6,481,993,762	-	6,481,993,762
Derivative Financial Instruments	-	-	-	209,701	209,701
Financial Assets at FVPL	11,628,595	-	-	-	11,628,595
Loans and Advances	-	-	108,168,861,465	-	108,168,861,465
Debt and Other Instruments	-	-	34,074,557,579	-	34,074,557,579
Financial Assets at FVOCI	-	6,157,847	-	-	6,157,847
Total Financial Assets	11,628,595	6,157,847	150,939,519,154	209,701	150,957,515,297
Financial Liabilities					
Due to Banks	-	-	1,744,206,845	-	1,744,206,845
Derivative Financial Instruments	-	-	-	114,235	114,235
Due to Depositors	-	-	118,627,348,744	-	118,627,348,744
Due to Debt Securities Holders	-	-	13,295,604,446	-	13,295,604,446
Debenture Issued	-	-	5,809,186,153	-	5,809,186,153
Other Liabilities	-	-	28,617,325	-	28,617,325
Total Financial Liabilities	-	-	139,504,963,513	114,235	139,505,077,748

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

37 FAIR VALUE OF FINANCIAL INSTRUMENTS

37.1 Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

(a) Derivatives

Derivative products valued with market-observable inputs are mainly currency swaps and forward foreign exchange contracts. Such valuations incorporate various inputs such as foreign exchange spot and forward rates.

(b) Financial Assets at Fair Value through Other Comprehensive Income

Financial Assets at Fair Value through Other Comprehensive Income are valued using valuation techniques or pricing models primarily consisted of unquoted equities.

(c) Financial Assets at Fair Value through Profit or Loss

Quoted Equities and Sri Lanka Government Securities included in Financial Assets at Fair Value through Profit or Loss are valued using market prices.

37.2 Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

a) The following table shows an analysis of financial instruments and non financial assets and liabilities recorded at fair value by level of fair value hierarchy.

As at 31st December 2019	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	443,298	-	443,298
Financial Assets at Fair Value through Profit or Loss				
- Equities	-	-	-	-
- Sri Lanka Government Foreign Currency Securities	168,176,768	-	-	168,176,768
Financial Assets at FVOCI	-	6,157,847	-	6,157,847
	168,176,768	6,601,145	-	174,777,913
Non Financial Assets				
Land - Revalued (Note 22.5)	-	-	1,402,160,000	1,402,160,000
Building - Revalued (Note 22.5)	-	-	481,575,000	481,575,000
	-	-	1,883,735,000	1,883,735,000
Financial Liabilities				
Derivative Financial Instruments	-	107,293	-	107,293
	-	107,293	-	107,293

As at 31st December 2018	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	209,701	-	209,701
Financial Assets at Fair Value through Profit or Loss				
- Equities	11,628,595	-	-	11,628,595
- Sri Lanka Government Rupee Securities - Treasury Bills and Bonds	-	-	-	-
Financial Assets at FVOCI	-	6,157,847	-	6,157,847
	11,628,595	6,367,548	-	17,996,143
Non Financial Assets				
Land - Revalued (Note 22.5)	-	-	1,014,910,000	1,014,910,000
Building - Revalued (Note 22.5)	-	-	429,017,945	429,017,945
	-	-	1,443,927,945	1,443,927,945
Financial Liabilities				
Derivative Financial Instruments	-	114,235	-	114,235
	-	114,235	-	114,235

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 Gains from Trading	
	2019 Rs.	2018 Rs.
Financial Assets		
Derivative Financial Instruments	336,005	95,465
Financial Assets at Fair Value through Profit or Loss		
- Equities	5,472,280	(478,824)
- Sri Lanka Government Rupee Securities - Treasury Bills and Bonds	-	(6,531,315)
- Sri Lanka Government Foreign Currency Securities	983,125	-
	6,791,410	(6,914,674)

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.

As at 31st December	2019		2018	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Financial Assets				
Cash and Cash Equivalents	1,708,269,215	1,708,269,215	2,214,106,348	2,214,106,348
Balances with Central Bank of Sri Lanka	5,333,199,577	5,333,199,577	6,481,993,762	6,481,993,762
Loans and Advances -at Amortised Cost	111,187,855,278	111,322,699,134	108,168,861,465	108,379,124,570
Debt and Other Instruments - at Amortised Cost	30,080,088,461	30,317,126,927	34,074,557,579	33,873,530,275
Total Financial Assets	148,309,412,531	148,681,294,853	150,939,519,154	150,948,754,955
Financial Liabilities				
Due to Banks	521,836,342	521,836,342	1,744,206,845	1,744,206,845
Due to Depositors - at Amortised Cost	122,544,024,040	119,704,850,684	118,627,348,744	118,234,345,392
Due to Debt Security holders - at Amortised Cost	11,944,842,751	11,944,842,751	13,295,604,446	13,295,604,446
Debentures Issued	-	-	5,809,186,153	5,809,186,153
Other Liabilities	863,074,300	863,074,300	28,617,325	28,617,325
Total Financial Liabilities	135,873,777,433	133,034,604,077	139,504,963,513	139,111,960,161

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

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 and Securities Purchased under Re-sale Agreements. This assumption is also applied to demand deposits, savings accounts without a specific maturity, floating rate instruments and fixed rate instruments having maturities within 12 months.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities (other than assets and liabilities with maturities within 12 months) carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

38 RISK MANAGEMENT

38.1 Introduction

Risk is inherent in Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls as per the risk appetite of the Bank. The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his/her responsibilities. The Bank's exposure to risk could be broadly categorised into credit risk, market risk, liquidity risk and operational risk. In addition, the impact of other risks such as strategic risk, reputational risk, compliance risk and legal risk are also monitored to avoid any additional impact on the Bank. The impact on risk could be segregated as external or internal according to the nature of the business. External risks may be due to changes in political, regulatory and other changes in the industry could impact the strategic processes of the Bank.

Risk Management Objectives, Policies and Processes

The foremost objective of the risk management is to assess the uncertainty of the future in order to make the best possible decision at present ensuring a return with the minimum impact on the financial position and profitability. The Bank's all risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Further, all risk management policies are updated regularly to reflect changes in market conditions, products and services offered by the Bank and requirements of the regulators.

Measurement of financial instruments is done with proper assessment of expectation in future cash flows. The most imperative methods of ascertaining the risk of such instruments is done by way of assessing the future settlement plan. Early identification of any issues had been the key factor to arrest and addresses the challenges of the environment and the expectation of the Bank. Having identified the categories of the measurements, the mitigating controls were introduced for better portfolio management. Separate management methods were introduced as per collateral, risk rating, and cash flow attached to each instruments. Stringent measures were introduced for items which needed close monitoring.

Risk Governance and Risk Management Strategies & Systems

The Bank's overall responsibility for risk management falls on the Board of Directors. Accordingly, the Bank has established a robust and pervasive risk culture and clear policies that defines the responsibilities of Corporate and Senior Management personnel, subject to the oversight of the Board. There are committees at both the Board and the Management levels to ensure that all risks are appropriately managed and risk limits are established based on the appetite of the Bank.

Board Audit Committee

The Board Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls, risk management systems, internal audit process, the Bank's process for monitoring compliance with legal and regulatory requirements, appointment of external auditors, determination of their fees, ensuring their objectivity and independence and maintaining high standards of good Corporate Governance practices to conform to highest ethical standards. The 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 the Audit Plan, the results of which are reported to the Audit Committee.

Board Credit Committee

The Board of Directors has delegated the responsibility for the oversight of credit management functions of the Bank to the Board Credit Committee. The Board Credit Committee discharges its main responsibilities to operate a sound credit granting process, maintain an appropriate credit administration, maintain adequate controls over credit risk, identification and administration of problem advances, proper evaluation of new business opportunities, cyclical aspects of internal and external economy and review of facilities sanctioned by the Committee and issue of further instructions, if necessary.

Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee mainly looks into the overall risk management aspects of the Bank. The Committee adopts risk strategies, frameworks, and policies and is also responsible for implementation of these strategies and plans. The Committee meets on quarterly basis and discusses the predetermined risk goals implemented as per the Bank wide risk management policy adopted by the Board and review the performances of the management committees. Risk dashboard, risk aggregation reports along with stress testing methodology are used to address the overall risk level of the Bank.

Board Related Party Transaction Review Committee

The Bank constituted Board Related party Transaction Review committee in order to assist the Board to review all related party transactions performed by the Bank. The committee monitors Bank's compliance with the Colombo Stock Exchange listing rules which ensure interest of the shareholders when entering into the related party transactions. The Committee independently reviews all related party transactions and provides /observations to the Board of Directors if deem necessary.

Board Strategic Planning Committee

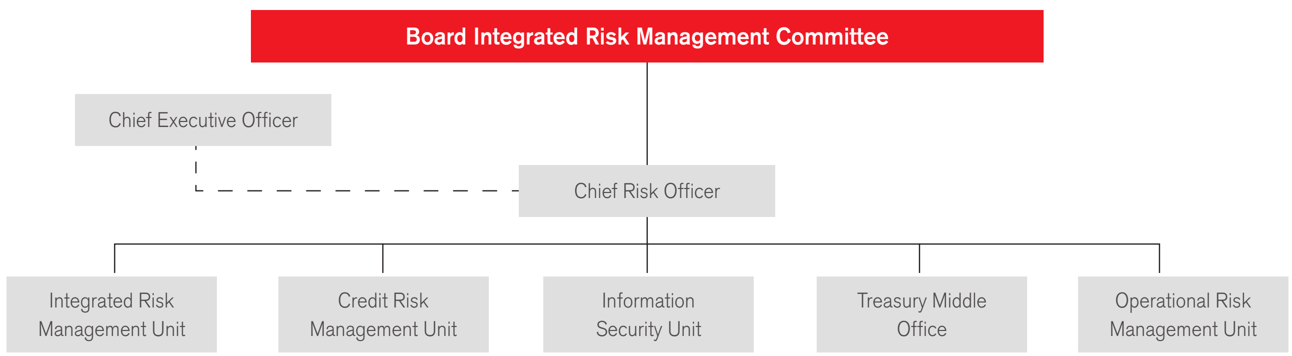
The Board Strategic Planning Committee is formed to ensure that sufficient attention is devoted to the strategic planning process at the Board level. The Committee discharges it's main responsibilities by approving the periodic strategic plan & significant amendments to the existing strategic plan and recommending to the Board, ensuring that the annual budget is prepared to accomplish the goals and objectives of the strategic plan and recommending the same to the Board, reviewing the actual performance against the strategic plan as well as the annual budget, reviewing the appropriateness of current vision, mission and strategic positioning of the Bank, approving all strategic investment decisions such as mergers and acquisitions and recommending the same to the Board, reviewing the adequacy and composition of the Bank's capital structure in the context of the growth targets.

Board Recoveries Committee

The Board Recoveries Committee is formed to inculcate top to bottom approach in minimising Non-Performing Loans (NPLs) and maximising the profitability of the Bank since recoveries indicate a paramount important for the overall performance of the bank. The Committee was formed for the purpose of ensuring sound recovery function & minimising potential non-performing advances to achieve sustainable growth and stability over the period of time. The main duties of the committee include establish appropriate recovery strategies for NPLs and delinquent credit of the Bank, review performances against recovery targets that are agreed with respective Area Mangers and department/product heads of the Bank and take necessary actions to upgrade the recovery process of the Bank.

Risk Management Function

Risk Management function which is independent of the business units, performs the role of implementing risk management policies and procedures. Risk Management Unit headed by the Chief Risk Officer is responsible and accountable for controlling of risks, compliance of risk policies and procedures of the Bank. The structure of the risk management unit is as follows;



Each unit monitors the impact on separate risks as specified. These units function independent of business units and submits its observations to the Chief Risk Officer. Reports are generated daily, weekly, monthly and quarterly basis as per the requirements and breaches, if any, are notified for relevant action. Exceptions are also reported to the Board Integrated Risk Management Committee with relevant actions to be taken to address them.

Risk Measurement and Reporting Systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The Compliance function is also an independent function which performs the role of safeguarding the Bank against regulatory and reputational risks. It does this through appropriate polices and procedures for compliance with all applicable laws and regulations and embedding them into the internal control system. The policies set out the procedures for safeguarding the Bank from being sanctioned or fined for regulatory non-compliances. The Bank's Compliance Department also conducts training to familiarise staff with their compliance obligations.

The Bank's risks are recorded according to the breaches that have taken place, expected /predicted losses and unexpected cases which may arise in future. The estimated figures of cases are weekly monitored for prevention and mitigations. These events are mainly taken into account according to the internal risk management process established by the Bank. Monitoring of risks is done on predetermined limits as per policies. Management Information System reports are generated to the Corporate Management based on these risks indicators. Certain industries are specially highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted based on their daily, weekly and monthly monitoring to the Board/Management committees to measure the risk exposure across all types of risks and activities. This contains the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports will indicate aggregate credit exposure, credit metric forecasts, hold limit exceptions, as well as liquidity ratios. Further elaborations will be done on industry, concentration, customer and geographic risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored weekly for adherence. Delegated Authority limits have been imposed to each business units to control exposure to risks. Those outwit such limits are referred to Credit Risk Management Committee/Board Credit Committee for approval.

38.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the Credit Risk Department of the Bank's independent Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counter-party limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Management of Credit Risk

The primary objective of credit risk management is to enable the Bank to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved credit appetite. The Bank has a well defined credit policy approved by the Board of Directors which spells out the credit culture of the Bank, specifying target markets for lending and areas to avoid. The policy is implemented through the credit process, which is set out with clear guidelines and procedures. As a further step towards improving and maintaining uniformity of credit submissions, the Bank has established credit clusters (under area offices) with well trained and experienced staff to evaluate and carry out periodic review of credit facilities.

The Bank's credit risk management process broadly encompasses the following;

a) Loan origination and risk appraisal comprises initial screening and credit appraisal focused on borrowers' ability to meet their commitments in a timely manner. The internal risk rating is an important part of the risk assessment of the customers and incorporated in the credit decision process. This numerical rating denotes the borrowers' strength relating to repayment ability, financial condition, industry/business outlook and management quality. A separate alphabetical rating is assigned to customers as the security indicator based on Bank's approved policy on security. The Bank minimises risk by granting credit facilities for high rated customers.

b) Loan approval and sanction of credit facilities - Clear guidelines and policies have been established for loan approvals/renewals within delegated credit approval authorities.

c) Credit administration and disbursement is performed by Credit Administration Unit, which is an independent unit to ensure clear segregation of duties from business units and ensures origination and disbursement of credit are made only after stipulated conditions have been met and relevant security documents are obtained.

d) Post disbursement credit monitoring unit monitors all overdue credit facilities reported to 'underperforming category' to facilitate timely collections.

e) Credit Measurement and Monitoring - Credit Risk Management Unit measures and tracks the early warning signals pertaining to deterioration of financial health of the borrowers and customers who need special attention/monitoring is identified and their financial behaviours is discussed at the Credit Risk Management Committee and the Board Credit Committee levels.

f) Non performing advances are managed by the Legal and Recoveries Departments. These units are responsible for all aspects of the non performing credit, restructuring of the credit, monitoring the value of the applicable collateral & liquidation, scrutiny of legal documents liaising with the customer until all legal recovery matters are finalised, effective integration with Credit Risk and Credit Administration 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 & regulatory requirements and adequate for the nature and complexity of Bank's activities. Limits have been prescribed for the Bank's exposure to any single borrower, group of specific borrowers or specific industries/sectors in order to avoid concentration of credit risk.

A well structured loan review mechanism is in place and a comprehensive review is carried out at least annually for individually significant loans and identification of customers that require special attention are identified and more frequent updates are carried out for 'Watch List' exposures.

The Bank uses collateral for credit risk mitigation. The requirements for collateral is set forth in the credit policies and procedures of the Bank. The collaterals are evaluated independently by professional valuers approved by the Head Office Credit Committee and the Board Credit Committee.

38.2.1 Credit-related commitments risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and financial guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

38.2.2 Impairment Assessment

For accounting purposes, the Bank uses an Expected Credit Loss (ECL) model for the recognition of losses on impaired financial assets. This means that losses are recognised when objective evidence which provide significant increase in credit risk at the end of reporting period. Triggering events include the following:

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

- The Bank's definition and assessment of default and cure (Note 38.2.2.1).
- An explanation of the Bank's PD estimating process (Note 38.2.2.2)
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default (Notes 38.2.2.2, 38.2.2.3 and 38.2.2.4 respectively)
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 38.2.2.5)
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note: 38.2.2.6)
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note: 2.8.6.2)

38.2.2.1 Definition of Default and Cure

The Bank considers a financial instrument defaulted, therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. In addition to above the bank considers all 'Non Performing Credit Facilities' and 'Rescheduled Credit Facilities' as defined in the Banking Act Direction No.03 of 2008 on 'Classification of Loans and Advances, Income Recognition and Provisioning' as 'Stage 3 Credit Facilities'. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default.
- The borrower requesting emergency funding from the Bank.
- The borrower having past due liabilities to public creditors or employees.
- The borrower is deceased.
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral.
- A material decrease in the borrower's turnover or the loss of a major customer.
- A covenant breach not waived by the Bank.
- The debtor filing for bankruptcy application/protection.
- Debtor's listed debt or equity suspended/delisted at the primary Stock Exchange.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present as at the reporting date. The decision whether to classify an asset as 'Stage 2' or 'Stage 1' once cured depends on the updated credit grade at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than requirement for forbearance which is explained in Note 2.8.10.

38.2.2.2 Probability of Default (PD)

The Bank estimate the Probability of Defaults (PD's) based on the basis of historical information. The Bank's PD's are calculated on the basis of on 'Days Past Due' (DPD) using 'Risk Migration Matrix Method'.

Details of the Bank's PD's are given below

As at 31st December 2019	Stage 1 %	Stage 2 %	Stage 3 %
Loans and Advances			
Term Loans	0.33 - 15.25	9.68 - 66.88	100.00
Overdrafts	3.12 - 7.03	8.98 - 15.72	100.00
Trade Finance	0.88 - 2.76	9.29 - 17.78	100.00
Lease Rentals Receivable	2.37 - 2.89	3.40 - 8.73	100.00
Others	0.10 - 26.25	0.39 - 30.23	100.00
Other Financial Assets			
Government of Sri Lanka Securities	4.00	-	-
Other Financial Assets	0.0001 - 6.00	-	-

As at 31st December 2018	Stage 1 %	Stage 2 %	Stage 3 %
Loans and Advances			
Term Loans	0.35 - 17.58	9.14 - 79.81	100.00
Overdrafts	2.87 - 7.31	7.32 - 17.16	100.00
Trade Finance	1.16 - 3.24	12.37 - 19.46	100.00
Lease Rentals Receivable	2.70 - 3.49	4.29 - 19.07	100.00
Others	0.08 - 9.70	0.22 - 46.67	100.00
Other Financial Assets			
Government of Sri Lanka Securities	4.00	-	-
Other Financial Assets	0.0001 - 6.00	-	-

PD's are then adjusted for SLFRS 9 ECL calculations to incorporate forward looking information and SLFRS 9 stage classification of the exposure. This is repeated for each economic scenario as appropriate.

38.2.2.3 Exposure at Default (EAD)

The exposure at default represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 2.8.6.5.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modeling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of the Bank's models.

38.2.2.4 Loss Given Default (LGD)

The Loss Given Default is an estimate of the loss arising in the case where default occurs at a given time.

The Bank segments its lending portfolio into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics as well as borrower characteristics.

38.2.2.5 Significant Increase in Credit Risk (SICR)

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk in accordance with the qualitative criteria assessment on significant increase in credit risk for an asset. In certain cases, the Bank may also consider that events explained in below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Qualitative criteria used for SICR assessment is given below;

- Modification of terms (restructuring) resulting in concessions including extensions, deferment of payments etc. due to deficiency of the borrower.
- The customer is deceased or insolvent.
- When the bank is unable to find or contact the customer.
- A reasonable and supportable forecasts of future economic conditions that adversely affects the performance of the customer.
- A significant change in geographical locations or a customer or a natural catastrophes that adversely impacts the customer performance.
- A significant fall in the value of the underlying collaterals.
- An illegal disposal of mortgaged assets.
- A major fine or a penalty imposed on the customer.
- Significant changes in an actual or expected reductions in borrowers economic incentives to make scheduled contractual payments.
- Undue delay in submission of audited financial statements.
- Modified external audit opinion on financial statements.
- Continuous significant cash flows problems.
- A significant increase in financial gearing.
- More than 50% decline in borrowers Turnover or Profit before tax over previous year.
- Erosion of borrowers net-worth by 25% over the previous year.
- A significant non compliance with regulatory requirements.
- A change in laws and regulations that significantly affects customer's performance.
- A material litigation against the customer that may significantly affects the customer performance or any other factor that affects the going concern on the company.
- At least 1 year delay in commencement of commercial operations/a major projects of the customer.
- Downgrade of Bank's internal risk rating during past 12 months.
- Downgrade of external credit rating during past 12 months.
- Availability of any other factor that suggest the borrower will not be able to service the loan as agreed or any other factor that signifies that credit risk of the borrower has been increased significantly.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 38.2.2.6), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

38.2.2.6 Grouping Financial Assets Measured on Collective Basis

As explained in Note 2.8.6.1, the Bank calculates ECL's either on collective or individual basis.

Allowances are assessed collectively for losses on Loans and Advances that are not individually significant and for individually significant Loans and Advances that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience. However, when there are significant market developments, the Bank would include macro-economic factors within its assessments. These factors include GDP growth rate, unemployment rates, inflation rate, exchange rates, changes in laws & regulations and other data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio. Allowances are evaluated separately at each reporting date with each portfolio.

The Bank groups exposures into smaller homogeneous portfolios, based on the internal and external characteristics of the loans and advances, as described below;

- Product Type
- Borrowers' Business Segment Type
- Borrowers' Industry Type
- Collateral Type
- Exposure Value

38.2.3 Analysis of ECL Model under Multiple Economic Scenarios

The following table outlines the impact of multiple economic scenarios on the allowance for impairment on Financial Assets;

As at 31st December 2019	Loans & Advances - At Amortised Cost Rs.
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	3,492,311,339
Scenario B	
Base case - 25%, Upside - 25%, Downside - 50%	3,505,977,193
Change in Impairment Allowance - Increase/(Decrease) - (B - A)	13,665,854
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	3,492,311,339
Scenario C	
Base case - 40%, Upside - 40%, Downside - 20%	3,462,786,738
Change in Impairment Allowance - Increase/(Decrease) - (C - A)	(29,524,601)

As at 31st December 2018	Loans & Advances - At Amortised Cost Rs.
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	2,959,362,092
Scenario B	
Base case - 25%, Upside - 25%, Downside - 50%	2,974,384,749
Change in Impairment Allowance - Increase/(Decrease) - (B - A)	15,022,657
Scenario A - Actual	
Base case - 30%, Upside - 30%, Downside - 40%	2,959,362,092
Scenario C	
Base case - 40%, Upside - 40%, Downside - 20%	2,924,530,080
Change in Impairment Allowance - Increase/(Decrease) - (C - A)	(34,832,012)

The application of multiple economic scenarios does not have any material impact on impairment allowances on other classes of financial assets, financial guarantees or documentary credit.

38.2.4 Analysis of Maximum Exposure to Credit risk and Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The Bank obtains cash, gold, securities, property, guarantees, other movable and immovable property as collateral against lending. An approved list of acceptable securities and the applicable percentage of cash securities are defined as per the Credit Policy. These Collateral are evaluated independently by professional valuers. The management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose off repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

38.2.5 Forebone Loans

From a risk management point of view, once an asset is forebone, the Bank's Recoveries Department continues to monitor exposure until it is completely derecognised.

The bank treats all forebone loans as 'stage 3' assets.

The table below shows the details of the forebone loans with the related modification loss suffered by the bank during the year.

As at 31st December 2019	2019 Rs.	2018 Rs.
Amortised Cost of Forebone Financial Assets (Modified during the Year)	2,367,040,354	442,005,268
Net Modification Loss	3,032,002	1,426,175

38.2.6 Maximum Exposure to Credit risk

31st December 2019	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Financial Assets		
Cash and Cash Equivalents	1,708,269,215	1,708,269,215
Balances with Central Bank of Sri Lanka	5,333,199,577	5,333,199,577
Derivative Financial Instruments	443,298	443,298
Loans and Advances -at Amortised Cost	117,503,175,729	16,808,275,163
Debt and Other Instruments - at Amortised Cost	30,206,445,904	30,142,888,439
Financial Assets- at Fair Value through Other Comprehensive Income	6,157,847	6,157,847
	154,757,691,570	53,999,233,539
Other Credit Exposures		
Documentary Credit	2,768,702,557	2,711,077,680
Guarantees	3,069,132,632	2,704,949,589
Undrawn Credit Commitments*	14,953,647,649	14,953,647,649
	20,791,482,838	20,369,674,918
	175,549,174,408	74,368,908,457

31st December 2018	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Financial Assets		
Cash and Cash Equivalents	2,214,106,348	2,214,106,348
Balances with Central Bank of Sri Lanka	6,481,993,762	6,481,993,762
Derivative Financial Instruments	209,701	209,701
Loans and Advances -at Amortised Cost	113,494,424,234	19,077,605,987
Debt and Other Instruments - at Amortised Cost	34,158,389,212	33,310,118,368
Financial Assets- at Fair Value through Other Comprehensive Income	6,157,847	6,157,847
	156,355,281,104	61,090,192,013
Other Credit Exposures		
Documentary Credit	868,487,803	672,298,292
Guarantees	2,973,676,651	2,739,092,515
Undrawn Credit Commitments*	16,829,617,055	16,829,617,055
	20,671,781,509	20,241,007,862
	177,027,062,613	81,331,199,875

*Credit Risk mitigants relating to undrawn credit commitments are netted off against utilised portion of respective credit facility.

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

38.2.7 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 2019	Not Past Due	Past due							Individually Impaired	Total
		1-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	361-540 Days	Over 540 Days		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,709,649,763	-	-	-	-	-	-	-	-	1,709,649,763
Balances with Central Bank of Sri Lanka	5,333,199,577	-	-	-	-	-	-	-	-	5,333,199,577
Derivative Financial Instruments	443,298	-	-	-	-	-	-	-	-	443,298
Financial Assets at Fair Value through Profit or Loss	168,176,768	-	-	-	-	-	-	-	-	168,176,768
Loans and Advances -at Amortised Cost	79,373,466,912	15,620,719,468	10,110,982,382	3,302,356,488	748,147,510	1,738,663,995	710,302,612	2,083,925,954	3,814,610,408	117,503,175,729
Debt and Other Instruments - at Amortised Cost	30,206,445,904	-	-	-	-	-	-	-	-	30,206,445,904
Financial Assets at FVOCI	6,157,847	-	-	-	-	-	-	-	-	6,157,847
Total	116,797,540,069	15,620,719,468	10,110,982,382	3,302,356,488	748,147,510	1,738,663,995	710,302,612	2,083,925,954	3,814,610,408	154,927,248,886

31st December 2018	Not Past Due	Past due							Individually Impaired	Total
		1-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	361-540 Days	Over 540 Days		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	2,214,467,464	-	-	-	-	-	-	-	-	2,214,467,464
Balances with Central Bank of Sri Lanka	6,481,993,762	-	-	-	-	-	-	-	-	6,481,993,762
Derivative Financial Instruments	209,701	-	-	-	-	-	-	-	-	209,701
Financial Assets at Fair Value through Profit or Loss	11,628,595	-	-	-	-	-	-	-	-	11,628,595
Loans and Advances -at Amortised Cost	69,166,079,097	21,346,628,932	12,276,753,910	3,924,681,219	797,507,971	750,638,107	389,777,401	1,394,740,639	3,447,616,958	113,494,424,234
Debt and Other Instruments - at Amortised Cost	34,158,389,212	-	-	-	-	-	-	-	-	34,158,389,212
Financial Assets at FVOCI	6,157,847	-	-	-	-	-	-	-	-	6,157,847
Total	112,038,925,678	21,346,628,932	12,276,753,910	3,924,681,219	797,507,971	750,638,107	389,777,401	1,394,740,639	3,447,616,958	156,367,270,815

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 Advances/Financial Assets

All individually significant Loans and Advances/Financial Assets which the Bank determines that there is objective evidence of impairment loss and therefore, may not be able or unable to collect all principal and interest due according to the contractual terms are classified as 'Impaired Loans and Advances/Financial Assets'.

Past Due Loans and Advances/Financial Assets

Past Due Loans and Advances/Financial Assets are those with contractual interest or principal payments are 'past due', but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed, level of security/collateral available and significance of the financial asset.

38.2.8 Credit Risk Exposure for Each Internal Borrower Risk Rating

The Bank's policy is to maintain accurate and consistent borrower 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.

38.2.9 Analysis of Risk Concentration

38.2.9.1 Concentration by Counterparty

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 2019 was Rs. 2,200,000,000/- (2018: Rs. 2,260,521,000/-), before taking account of collateral.

Notes to the Financial Statements

38.2.9.2 Industry Analysis

31st December 2019	Government	Agriculture, Forestry and Fishing	Manufacturing	Tourism	Transportation and Storage	Construction & Housing	Wholesale and Retail Sale
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,475,276,403	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	5,333,199,577	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-
Financial Assets at FVPL	168,176,768	-	-	-	-	-	-
Loans and Advances -at Amortised Cost	-	15,206,944,296	11,389,229,391	3,182,022,703	687,131,895	31,749,229,002	18,645,860,270
Debt and Other Instruments - at Amortised Cost	28,523,451,683	-	-	-	-	506,020,773	-
Financial Assets at FVOCI	-	-	-	-	-	-	-
	35,500,104,431	15,206,944,296	11,389,229,391	3,182,022,703	687,131,895	32,255,249,775	18,645,860,270

31st December 2018	Government	Agriculture, Forestry and Fishing	Manufacturing	Tourism	Transportation and Storage	Construction & Housing	Wholesale and Retail Sale
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,394,232,445	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	6,481,993,762	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-
Financial Assets at FVPL	-	-	-	-	-	-	-
Loans and Advances -at Amortised Cost	-	12,285,165,041	13,105,002,332	3,352,116,185	696,809,184	30,827,375,424	18,502,641,028
Debt and Other Instruments - at Amortised Cost	31,690,681,610	-	-	-	-	506,178,082	-
Financial Assets at FVOCI	-	-	-	-	-	-	-
	39,566,907,817	12,285,165,041	13,105,002,332	3,352,116,185	696,809,184	31,333,553,506	18,502,641,028

Information Technology and Communication Services	Financial Services	Infrastructure Development	Professional, Scientific and Technical Activities	Arts, Entertainment and Recreation	Education	Health Care, Social Services and Support Service	Consumption	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	234,373,360	-	-	-	-	-	-	1,709,649,763
-	-	-	-	-	-	-	-	5,333,199,577
-	443,298	-	-	-	-	-	-	443,298
-	-	-	-	-	-	-	-	168,176,768
390,483,063	6,413,058,748	187,708,139	1,226,686,609	298,821,866	678,092,841	291,254,902	27,156,652,004	117,503,175,729
-	1,176,973,448	-	-	-	-	-	-	30,206,445,904
-	6,157,847	-	-	-	-	-	-	6,157,847
390,483,063	7,831,006,701	187,708,139	1,226,686,609	298,821,866	678,092,841	291,254,902	27,156,652,004	154,927,248,886

Information Technology and Communication Services	Financial Services	Infrastructure Development	Professional, Scientific and Technical Activities	Arts, Entertainment and Recreation	Education	Health Care, Social Services and Support Service	Consumption	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	820,235,019	-	-	-	-	-	-	2,214,467,464
-	-	-	-	-	-	-	-	6,481,993,762
-	209,701	-	-	-	-	-	-	209,701
-	11,628,595	-	-	-	-	-	-	11,628,595
436,219,514	7,122,618,095	187,770,742	927,848,539	320,916,602	625,203,328	373,295,468	24,731,442,752	113,494,424,234
-	1,961,529,520	-	-	-	-	-	-	34,158,389,212
-	6,157,847	-	-	-	-	-	-	6,157,847
436,219,514	9,922,378,777	187,770,742	927,848,539	320,916,602	625,203,328	373,295,468	24,731,442,752	156,367,270,815

38.3 Liquidity Risk

Liquidity Risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Hence, the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis.

38.3.1 Management of Liquidity Risk

The Bank manages liquidity risk in accordance with regulatory guidelines and accepted best practices. The objective of the Bank's liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and that market access remains cost effective. The Bank's liquidity risk management framework is designed to identify measure and manage the liquidity position in a timely manner. The Assets and Liabilities Committee (ALCO) is responsible for managing this risk through continuous monitoring of the set benchmarks and controlling risks by adopting appropriate strategies through advances, deposits and investment products. Contractual maturities of assets and liabilities, sensitivity of assets and liabilities, key liquidity ratios and monthly liquidity gaps are reviewed at ALCO meetings as measures to liquidity .The Bank maintains a portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of expected cash flows.

The Bank's Liquidity Contingency Plan is a detailed action plan document approved by the Board of Directors of the Bank indicating possible warning indicators, monitoring mechanism and the process for escalation. The plan details the specific action steps and identifies key individuals responsible for the specific action tasks. To limit liquidity risk, the Bank has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. 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 41.

The policy of the Bank is to maintain adequate liquidity at all times, at all locations and for all currencies and hence to be in a position in the normal course of business, to meet obligations, repay depositors and fulfill commitments. As a part of liquidity management, the Bank maintains borrowing relationships to ensure the continued access to diverse market of funding sources. The Bank's sound credit rating together with excellent market reputation has enabled the Bank to secure ample call lines with local and foreign Banks.

In addition, the Bank maintains a Statutory Deposit with the Central Bank of Sri Lanka equal to 5% (2018 - 6%) of Rupee deposit liabilities of the Domestic Banking Unit. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of Statutory Liquid Asset Ratio to customer liabilities, to reflect market conditions. The significant liquidity ratios during the year were as follows:

Advances to Deposit Ratio (ADR)

	2019	2018
Average	97.89%	97.54%
Year-end	99.19%	98.08%

The Bank stresses the importance of maintaining an adequate deposit base as the key source of financing loans to customers. This is monitored using the Advances to Deposit Ratio (ADR), which compares Loans and Advances (capital) as a percentage of customers deposits (capital). Cheques and drafts purchased which are deemed to be liquid, are excluded from the advances to deposit ratio.

Statutory Liquid Asset Ratio

	2019	2018
Average		
Domestic Banking Unit	31.48%	25.10%
Foreign Currency Banking Unit	21.45%	23.26%
Year-End		
Domestic Banking Unit (Minimum Requirement - 20%)	24.93%	29.17%
Foreign Currency Banking Unit (Minimum Requirement - 20%)	23.61%	20.09%

The Bank maintains a healthy Statutory Liquid Asset Ratio (SLAR) separately at Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU) 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, Sovereign Bonds, Standing Deposit Facility Investments, Gilt Edged Securities, Import Bills, Export Bills and Items in the Process of Collection as “Liquid Assets” for the purpose of Statutory Liquid Asset Ratio Calculation.

38.3.2 Statutory Liquidity Coverage Ratio

In addition to Statutory Liquid Asset Ratio (SLAR) requirement, the Bank ensures compliance with Liquidity Coverage Ratio (LCR) requirement in accordance with Direction No.01 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 (100%) for both Sri Lankan Rupees as well as all currencies throughout the year.

High Quality Liquidity Assets are categorised into two categories.

(a) Level 1 Assets: Include cash in hand, qualifying reserves with Central Bank of Sri Lanka and qualifying marketable securities that attract 0% risk weight under Basel III Capital Adequacy Framework.

(b) Level 2 Assets: Include Level 2A assets and Level 2B assets.

Level 2A Assets: Include qualifying marketable securities and qualifying non-financial corporate debt securities that attract a 20% risk weight under Basel III Capital Adequacy Framework and qualifying investments in gilt units trusts, subject to a 15% haircut.

Level 2B Assets: Include qualifying non-financial corporate debt securities with an external Credit Rating between A+ to BBB- and non-financial common equity shares, subject to a 50% haircut.

Statutory Liquidity Coverage Ratio (LCR)

	2019	2018
Average		
Rupee LCR	170.00%	159.63%
All Currency LCR	176.22%	140.38%
Year End		
Rupee LCR (Minimum Requirement - 100%)	128.84%	166.08%
All Currency LCR (Minimum Requirement - 100%)	165.02%	136.52%

Notes to the Financial Statements

38.3.3 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at the end of the reporting 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.

31st December 2019	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	More than 5 Years Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	1,708,269,215	-	-	-	1,708,269,215
Balances with Central Bank of Sri Lanka	5,333,199,577	-	-	-	5,333,199,577
Derivative Financial Instruments	443,298	-	-	-	443,298
Financial Assets at FVPL	168,176,768	-	-	-	168,176,768
Loans and Advances - at Amortised Cost	48,505,057,359	21,011,936,286	54,430,434,792	23,830,356,384	147,777,784,821
Debt and Other Instruments - at Amortised Cost	729,260,700	11,978,087,824	17,485,518,704	7,433,542,683	37,626,409,911
Financial Assets at FVOCI	-	-	-	6,157,847	6,157,847
Total Undiscounted Financial Assets	56,444,406,917	32,990,024,110	71,915,953,496	31,270,056,914	192,620,441,437
Financial Liabilities					
Due to Banks	304,987,039	67,156,829	168,938,324	-	541,082,192
Derivative Financial Instruments	107,293	-	-	-	107,293
Due to Depositors - at Amortised Cost	59,881,822,157	53,824,959,310	13,469,362,096	3,429,314,180	130,605,457,743
Due to Debt Securities Holders - At Amortised Cost	2,441,745,848	3,277,005,004	7,566,238,052	-	13,284,988,904
Debentures Issued	-	-	-	-	-
Other Liabilities	68,203,657	162,726,621	510,148,553	121,995,469	863,074,300
Total Undiscounted Financial Liabilities	62,696,865,994	57,331,847,764	21,714,687,025	3,551,309,649	145,294,710,432
Net Undiscounted Financial Assets/(Liabilities)	(6,252,459,077)	(24,341,823,654)	50,201,266,471	27,718,747,265	47,325,731,005

31st December 2018	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	More than 5 Years Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	2,214,106,348	-	-	-	2,214,106,348
Balances with Central Bank of Sri Lanka	6,481,993,762	-	-	-	6,481,993,762
Derivative Financial Instruments	209,701	-	-	-	209,701
Financial Assets at FVPL	11,628,595	-	-	-	11,628,595
Loans and Advances - at Amortised Cost	45,425,131,939	20,822,451,174	56,605,867,348	19,197,583,880	142,051,034,341
Debt and Other Instruments - at Amortised Cost	3,617,102,027	16,618,859,905	16,185,430,998	1,815,871,947	38,237,264,877
Financial Assets at FVOCI	-	-	-	6,157,847	6,157,847
Total Undiscounted Financial Assets	57,750,172,372	37,441,311,079	72,791,298,346	21,019,613,674	189,002,395,471
Financial Liabilities					
Due to Banks	1,564,615,354	49,435,033	132,488,715	-	1,746,539,102
Derivative Financial Instruments	114,235	-	-	-	114,235
Due to Depositors - at Amortised Cost	64,927,528,670	40,815,550,139	18,801,413,068	3,662,573,124	128,207,065,001
Due to Debt Securities Holders - At Amortised Cost	3,169,104,247	2,469,766,954	10,956,836,101	1,521,222,230	18,116,929,532
Debentures Issued	145,304,891	6,125,132,403	-	-	6,270,437,294
Other Liabilities	17,899,743	8,966,996	1,750,586	-	28,617,325
Total Undiscounted Financial Liabilities	69,824,567,140	49,468,851,525	29,892,488,470	5,183,795,354	154,369,702,489
Net Undiscounted Financial Assets/(Liabilities)	(12,074,394,768)	(12,027,540,446)	42,898,809,876	15,835,818,320	34,632,692,982

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

Notes to the Financial Statements

38.3.4 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 2019	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Contingencies					
Guarantees	974,640,992	1,845,824,060	248,667,580	-	3,069,132,632
Documentary Credit	2,204,490,850	564,211,707	-	-	2,768,702,557
Forward Foreign Exchange Contracts	334,452,350	-	-	-	334,452,350
Currency Swaps	25,873,094,038	-	-	-	25,873,094,038
	29,386,678,230	2,410,035,767	248,667,580	-	32,045,381,577
Commitments					
Undrawn Credit Lines	14,953,647,649	-	-	-	14,953,647,649
	14,953,647,649	-	-	-	14,953,647,649
Total (Note 42)	44,340,325,879	2,410,035,767	248,667,580	-	46,999,029,226

As at 31st December 2018	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Contingencies					
Guarantees	1,063,866,807	1,568,460,502	341,349,342	-	2,973,676,651
Documentary Credit	798,565,428	69,922,375	-	-	868,487,803
Forward Foreign Exchange Contracts	775,562,653	-	-	-	775,562,653
Currency Swaps	20,887,851,927	1,834,745,000	-	-	22,722,596,927
	23,525,846,815	3,473,127,877	341,349,342	-	27,340,324,034
Commitments					
Undrawn Credit Lines	16,829,617,055	-	-	-	16,829,617,055
	16,829,617,055	-	-	-	16,829,617,055
Total (Note 42)	40,355,463,870	3,473,127,877	341,349,342	-	44,169,941,089

38.4 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Bank's income or the value of its holdings of financial instruments. The Bank has placed a special emphasis on the effect of market risk on fixed income securities, investments and forex positions.

Management of Market Risk

The primary objective of market risk management is to ensure that the Bank optimises that the risk reward relationship and does not expose to unacceptable losses outside its risk appetite.

The Board Integrated Risk Management Committee reviews the risk goals set for market risk management on a quarterly basis and provides valuable input and direction. These goals are compared with results achieved and are subject to a comprehensive discussion for decision making for way forward. In particular, the limits imposed by the regulator and control measures adopted for compliance are carefully monitored.

The Assets and Liabilities Committee (ALCO), in keeping with its Terms of Reference (TOR) approved by the Board, decides on short term and long term strategies of the Bank for the overall management of Assets and Liabilities based on specific needs and prevailing market situation. ALCO reviews interest rate risk, liquidity risk, Bank interest rates with competitor rates etc.

The Board approved comprehensive policy documents on Market and Liquidity Risk management, Investments, and Stress Testing in place at Bank to mitigate the market risks. In addition, a policy document defining the responsibilities of each treasury units i.e. front, back and middle office is in place. The Strategies and policies are being continuously updated according to the evolving business requirements of the Bank as well as regulatory requirements. Treasury Middle Office functions as an independent unit reporting to Chief Risk Officer.

Treasury Middle Office of the Bank monitors the comprehensive framework of Treasury operating limits approved by the Board, including open position limits, dealer limits, counter party limits, gap limits, Foreign Currency Banking Unit and Domestic operation limits on a daily basis and takes prompt action when necessary. Separate risk goals are set for market risk management and on a quarterly basis and Board Integrated Risk Management Committee reviews these risk goals and provides valuable input and direction.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest Rate Risk results from the differences in the way interest rate changes affect the values of assets, liabilities, and off balance sheet instruments.

The interest rate sensitivity of Banks portfolio depends on the characteristics of the financial instruments that make up the portfolio. The interest rate sensitivity of a financial instrument depends on maturity and reprising characteristics of the financial instruments.

The Bank presently prepares the Sensitivity of Assets and Liabilities according to CBSL guideline for Interest Rate Sensitive Assets and Liabilities in prescribed time bands which is presented to Bank's Assets and Liabilities Committee on a monthly basis. Gaps are identified between assets and liabilities and the same is used to prepare the Interest Rate Risk Report.

	2019	2018
Increase in interest rates (basis points)	200 bps	200 bps
Effect on Profit or Loss and Equity (Rs.)	(166,897,376)	133,509,409
Decrease in interest rates (basis points)	(200 bps)	(200 bps)
Effect on Profit or Loss and Equity (Rs.)	228,447,556	(135,308,210)

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 2019	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	-	-	-	-	1,708,269,215	1,708,269,215
Balances with Central Bank of Sri Lanka	-	-	-	-	5,333,199,577	5,333,199,577
Derivative Financial Instruments	-	-	-	-	443,298	443,298
Financial Assets at FVPL	168,176,768	-	-	-	-	168,176,768
Loans and Advances -at Amortised Cost	83,689,820,881	18,100,048,867	8,755,951,819	642,033,711	-	111,187,855,278
Debt and Other Instruments - at Amortised Cost	4,709,939,048	11,377,938,026	8,239,415,248	5,752,796,139	-	30,080,088,461
Financial Assets at FVOCI	-	-	-	-	6,157,847	6,157,847
Total Financial Assets	88,567,936,797	29,477,986,893	16,995,367,067	6,394,829,850	7,048,069,937	148,484,190,444
Financial Liabilities						
Due to Banks	136,045,959	55,438,133	161,422,129	-	168,930,121	521,836,342
Derivative Financial Instruments	-	-	-	-	107,293	107,293
Due to Depositors - at Amortised Cost	55,569,224,282	50,884,564,270	8,787,188,941	2,719,955,397	4,583,091,150	122,544,024,040
Due to Debt Securities holders - At Amortised Cost	4,588,258,196	5,295,490,330	2,061,094,225	-	-	11,944,842,751
Other Liabilities	68,203,657	162,726,621	510,148,553	121,995,469	-	863,074,300
Total Financial Liabilities	60,361,732,094	56,398,219,354	11,519,853,848	2,841,950,866	4,752,128,564	135,873,884,726
Total Interest Rate Sensitivity Gap	28,206,204,603	(26,920,232,461)	5,475,513,219	3,552,878,984	2,295,941,373	12,610,305,718

As at 31st December 2018	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	-	-	-	-	2,214,106,348	2,214,106,348
Balances with Central Bank of Sri Lanka	-	-	-	-	6,481,993,762	6,481,993,762
Derivative Financial Instruments	-	-	-	-	209,701	209,701
Financial Assets at FVPL	-	-	-	-	11,628,595	11,628,595
Loans and Advances -at Amortised Cost	85,068,452,963	13,961,637,513	8,353,810,575	784,960,414	-	108,168,861,465
Debt and Other Instruments - at Amortised Cost	3,533,293,776	15,385,971,647	13,737,732,707	1,417,559,449	-	34,074,557,579
Financial Assets at FVOCI	-	-	-	-	6,157,847	6,157,847
Total Financial Assets	88,601,746,739	29,347,609,160	22,091,543,282	2,202,519,863	8,714,096,253	150,957,515,297
Financial Liabilities						
Due to Banks	980,579,768	48,393,239	131,202,650	-	584,031,188	1,744,206,845
Derivative Financial Instruments	-	-	-	-	114,235	114,235
Due to Depositors - at Amortised Cost	59,250,025,417	40,678,961,980	10,588,073,038	2,722,426,252	5,387,862,057	118,627,348,744
Due to Debt Securities holders - At Amortised Cost	6,312,516,115	4,920,994,106	2,062,094,225	-	-	13,295,604,446
Debentures Issued	908,061,150	4,901,125,003	-	-	-	5,809,186,153
Other Liabilities	17,899,743	8,966,996	1,750,586	-	-	28,617,325
Total Financial Liabilities	67,469,082,193	50,558,441,324	12,783,120,499	2,722,426,252	5,972,007,480	139,505,077,748
Total Interest Rate Sensitivity Gap	21,132,664,546	(21,210,832,164)	9,308,422,783	(519,906,389)	2,742,088,773	11,452,437,549

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

38.4.2 Equity Price Risk

Equity price risk arises from the possibility that equity prices will fluctuate affecting the value of quoted equities.

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. Un-quoted investments classified as 'Equities at FVOCI' are carried at the cost in the Statement of Financial Position.

All equity investments categorised as held for trading were disposed during the year.

Notes to the Financial Statements

38.4.3 Foreign Currency Risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or equity. The Bank is exposed to foreign exchange rate risk that the value of a financial instrument or the investment in its foreign assets, may fluctuate due to changes in foreign exchange rates.

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 movements 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.

Given below are the foreign currency exposures and their rupee equivalent in the major currencies, in which the Bank trades in:

As at 31st December	In Original Foreign Currency		Functional Currency of the Bank	
	2019	2018	2019 Rs.	2018 Rs.
Net Foreign Currency Exposure				
Great Britain Pound	(19,991)	(4,370)	(4,773,048)	(1,018,957)
United States Dollar	(21,962)	158,359	(3,983,482)	28,979,651
Euro	2,525	(19,458)	513,467	(4,073,200)
Japanese Yen	(1,098,938)	(77,664)	(1,836,106)	(129,077)

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of 5%, 10% and 15%, for depreciation on the current exchange rate and the impact on the overall foreign currency NOP (in USD) and the impact on Income Statement is shown in the table below:

As at 31st December 2019			As at 31st December 2018		
	USD	Rs.		USD	Rs.
NOP	91,013	16,507,991	NOP	142,061	25,997,175
At Shock levels of %	Revised Rupee position	Effect on Profit or Loss	At Shock levels of %	Revised Rupee position	Effect on Profit or Loss
	Rs.	Rs.		Rs.	Rs.
5	15,682,591	825,400	5	24,697,316	1,299,859
10	14,857,192	1,650,799	10	23,397,458	2,599,718
15	14,031,792	2,476,199	15	22,097,599	3,899,576

38.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The Bank recognises the significance of operational risk, which is inherent in all areas of business. This includes legal risk but excludes strategic and reputation risk. Operational risks inherent in the Bank's activities are managed within acceptable levels through an appropriate level of management focus on resources.

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.

39 NET ASSET VALUE PER ORDINARY SHARE

	2019	2018
Total Equity Holders Funds (Rs.)	13,328,788,206	11,246,643,256
Number of Ordinary Shares in Issue	442,561,629	442,561,629
Net Assets Per Share (Rs.)	30.12	25.41

40 ADDITIONAL CASH FLOW INFORMATION

40.1 Cash and Cash Equivalents for Cash Flow Purpose

	2019 Rs.	2018 Rs.
Cash in Hand (Note 15)	1,475,276,403	1,394,232,445
Balances with Foreign Banks (Note 15)	234,373,360	819,873,903
	1,709,649,763	2,214,106,348

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.

40.2 Change in Operating Assets

	2019 Rs.	2018 Rs.
Net Change in Statutory Deposit with Central Bank of Sri Lanka	1,148,794,185	402,024,150
Net Change in Derivative Financial Instruments	(233,597)	15,881,692
Change in Financial Assets - Fair Value through Profit or Loss	(156,548,173)	4,537,560,434
Change in Loans and Advances -at Amortised Cost	(4,107,664,779)	(1,758,636,208)
Changes in Debt and Other Instruments	3,951,943,308	(21,787,365,152)
Net Change in Other Assets	(228,127,409)	(28,655,157)
	608,163,535	(18,619,190,241)

40.3 Change in Operating Liabilities

	2019 Rs.	2018 Rs.
Net Change in Due to Banks	(1,222,370,503)	(753,694,399)
Net Change in due to Debt Securities Holders - at Amortised Cost	(698,781,879)	2,431,032,003
Net Change in Derivative Financial Instruments	(6,942)	(7,252,326)
Net Change in Due to Depositors - at Amortised Cost	3,916,675,296	11,434,319,104
Net Change in Other Provisions and Accruals	(20,795,413)	(21,137,567)
Net Change in Other Liabilities	388,425,783	1,185,653,410
	2,363,146,342	14,268,920,225

Notes to the Financial Statements

40.4 Other Non-Cash Items Included in Profit Before Tax

	2019 Rs.	2018 Rs.
Depreciation of Property, Plant and Equipment	147,738,549	159,440,256
Amortisation of Right-of-Use assets	202,526,811	-
Amortisation of Intangible Assets	37,439,104	34,370,887
Loss/(Profit) on Disposal of Property, Plant and Equipment	5,516,911	(2,104,202)
Impairment Charges	1,136,842,858	2,017,146,532
Defined Benefit Plan Expenses	71,936,571	66,708,219
	1,602,000,804	2,275,561,692

40.5 Operational Cash Flows From Interest and Dividends

	2019 Rs.	2018 Rs.
Interest Paid	10,267,868,039	9,765,228,910
Interest Received	19,327,891,116	18,341,824,155
Dividends Received	1,148,100	920,200

40.6 Changes in Liabilities arising from Financing Activities

2019	Stated Capital Rs.	Term Debt Rs.	Debentures Rs.	Lease Liabilities Rs.	Total Liabilities from Financing Activities Rs.
As at 1st January 2019	3,614,253,304	10,203,968,478	5,809,186,154	1,006,839,907	20,634,247,843
Cash Flows from Financing Activities					
- Receipts	-	362,760,000	-	-	362,760,000
- Repayments	-	(1,000,000,000)	(5,690,855,300)	(206,370,814)	(6,897,226,114)
- Interest Payments	-	(861,852,688)	(573,193,734)	(101,630,636)	(1,536,677,058)
Effect of Movement in Foreign Exchange Rate	-	(58,725,000)	-	-	(58,725,000)
Others *	-	866,026,051	454,862,880	125,341,756	1,446,230,687
As at 31st December 2019	3,614,253,304	9,512,176,841	-	824,180,213	13,950,610,358

2018	Stated Capital Rs.	Term Debt Rs.	Debentures Rs.	Total Liabilities from Financing Activities Rs.
As at 1st January 2018	3,614,253,304	6,733,162,061	7,147,051,848	17,494,467,213
Cash Flows from Financing Activities				
- Receipts	-	2,870,094,225	-	2,870,094,225
- Repayments		(500,000,000)	(1,309,144,700)	(1,809,144,700)
- Interest Payments	-	(709,613,002)	(703,260,306)	(1,412,873,308)
Effect of Movement in Foreign Exchange Rate	-	1,067,562,500	-	1,067,562,500
Others *	-	742,762,694	674,539,311	1,417,302,005
As at 31st December 2018	3,614,253,304	10,203,968,478	5,809,186,154	19,627,407,935

*The 'Others' row includes the effect of accrued but not yet paid interest on Term Debt, Debentures, Lease Liabilities and change in transaction costs.

41 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31st December 2019	Within 12 Months Rs.	Over 12 Months Rs.	Total Rs.
Assets			
Cash and Cash Equivalents	1,708,269,215	-	1,708,269,215
Balances with Central Bank of Sri Lanka	5,333,199,577	-	5,333,199,577
Derivative Financial Instruments	443,298	-	443,298
Financial Assets at FVPL	168,176,768	-	168,176,768
Loans and Advances -at Amortised Cost	59,532,587,766	51,655,267,512	111,187,855,278
Debt and Other Instrument - at Amortised Cost	11,250,994,229	18,829,094,232	30,080,088,461
Financial Assets at FVOCI	-	6,157,847	6,157,847
Property, Plant and Equipment	-	2,333,961,113	2,333,961,113
Right-of-Use Assets	212,036,174	699,800,626	911,836,800
Intangible Assets	-	280,851,974	280,851,974
Other Assets	522,615,767	446,239,378	968,855,145
Total Assets	78,728,322,794	74,251,372,682	152,979,695,476
Liabilities			
Due to Banks	360,414,214	161,422,128	521,836,342
Derivative Financial Instruments	107,293	-	107,293
Due to Depositors - at Amortised Cost	110,160,213,257	12,383,810,783	122,544,024,040
Due to Debt Securities Holders - at Amortised Cost	5,122,523,526	6,822,319,225	11,944,842,751
Current Tax Liabilities	752,287,378	-	752,287,378
Deferred Tax Liabilities	132,780,476	-	132,780,476
Other Provisions and Accruals	187,602,599	-	187,602,599
Other Liabilities	2,620,161,464	947,264,927	3,567,426,391
Total Liabilities	119,336,090,207	20,314,817,063	139,650,907,270
Net	(40,607,767,413)	53,936,555,619	13,328,788,206

31st December 2018	Within 12 Months Rs.	Over 12 Months Rs.	Total Rs.
Assets			
Cash and Cash Equivalents	2,214,106,348	-	2,214,106,348
Balances with Central Bank of Sri Lanka	6,481,993,762	-	6,481,993,762
Derivative Financial Instruments	209,701	-	209,701
Financial Assets at FVPL	11,628,595	-	11,628,595
Loans and Advances -at Amortised Cost	56,286,222,703	51,882,638,762	108,168,861,465
Debt and Other Instruments - at Amortised Cost	18,919,265,424	15,155,292,155	34,074,557,579
Financial Assets at FVOCI		6,157,847	6,157,847
Property, Plant and Equipment	-	1,934,573,939	1,934,573,939
Intangible Assets	-	305,083,081	305,083,081
Deferred Tax Assets	4,931,302	-	4,931,302
Other Assets	421,141,583	403,037,621	824,179,204
Total Assets	84,339,499,418	69,686,783,405	154,026,282,823
Liabilities			
Due to Banks	1,613,004,195	131,202,650	1,744,206,845
Derivative Financial Instruments	114,235	-	114,235
Due to Depositors - at Amortised Cost	102,515,503,621	16,111,845,123	118,627,348,744
Due to Debt Securities Holders - at Amortised Cost	4,135,856,184	9,159,748,262	13,295,604,446
Debentures Issued	5,809,186,153	-	5,809,186,153
Current Tax Liabilities	785,735,048	-	785,735,048
Other Provisions and Accruals	208,398,012	-	208,398,012
Other Liabilities	2,035,302,663	273,743,421	2,309,046,084
Total Liabilities	117,103,100,111	25,676,539,456	142,779,639,567
Net	(32,763,600,693)	44,010,243,949	11,246,643,256

42 COMMITMENTS AND CONTINGENCIES

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain risk and therefore, are part of the overall risk of the Bank.

Documentary Credit and Financial Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Financial Guarantees and Documentary Credit (Letters of Credit) carry a similar credit risk to loans. Details of Commitments and Contingencies are given below;

42.1 Contingencies

As at 31st December	2019 Rs.	2018 Rs.
Guarantees	3,069,132,632	2,973,676,651
Documentary Credit	2,768,702,557	868,487,803
Forward Foreign Exchange Contracts	334,452,350	775,562,653
Currency Swaps	25,873,094,038	22,722,596,927
	32,045,381,577	27,340,324,034

42.2 Commitments

As at 31st December	2019 Rs.	2018 Rs.
Undrawn Credit Commitments	14,953,647,649	16,829,617,055
	14,953,647,649	16,829,617,055
Total (Note 38.3.4)	46,999,029,226	44,169,941,089

Impairment allowances on undrawn credit commitments are included under impairment allowances for respective loan products in Note 19.5, whereas impairment provisions on financial guarantees and documentary credit is given under Note 30 - Other Liabilities.

There are no significant capital commitments as at the date of the Statement of Financial Position (2018-Nil).

42.3 Material Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

Pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a reasonable security to cover the damages are not considered here as the Bank does not expect cash outflows from such claims. However, further adjustments are made to the Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the probability of the outcome and also based on a reasonable estimation. The Bank's legal counsel is of the opinion that litigations which are currently pending will not have a material impact on the reported financial results or future operations of the Bank.

43 LEASE ARRANGEMENTS

43.1 Operating Lease Commitments - Bank as Lessee

The Bank has entered into commercial leases for branch premises. These lease agreements have an average life of between five and ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments due under such lease agreements as at 31st December 2018 are as follows:

	2018 Rs.
Within one year	290,118,848
After one year but not more than five years	760,117,672
More than five years	332,902,640
	1,383,139,160

43.2 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 leases for further terms. The lease terms are fixed. Rentals are calculated to recover the cost of the assets less their residual values and earn finance income.

As at 31st December 2019	Total Future Minimum Payments Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payments Rs.
Lease Rentals Receivable			
Within one year	4,694,553,697	1,041,266,734	3,653,286,963
After one year but not more than five years	6,055,431,469	1,082,125,383	4,973,306,086
More than five years	715,034	106,554	608,480
Total (Note 19.1)	10,750,700,200	2,123,498,671	8,627,201,529

As at 31st December 2018	Total Future Minimum Payments Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payments Rs.
Lease Rentals Receivable			
Within one year	5,121,932,819	1,173,720,877	3,948,211,942
After one year but not more than five years	7,185,126,681	1,329,699,398	5,855,427,283
More than five years	500,000	6,376	493,624
Total (Note 19.1)	12,307,559,500	2,503,426,651	9,804,132,849

Accumulated allowance for uncollectible minimum lease payments are disclosed in Note 19.5.

44 RELATED PARTY DISCLOSURE

The Bank carries out transactions in the ordinary course of business with parties who are defined as “Related Parties” in LKAS 24 - ‘ Related Party Disclosures’. The terms and conditions of such transactions are disclosed under Note 44.4 and Note 44.5.

44.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

44.2 Transactions with Key Management Personnel of the Bank

The Bank has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the Bank as the ‘Key Management Personnel’ in accordance with LKAS 24 : ‘Related Party Disclosures’. Accordingly, the Chief Executive Officer and the Board of Directors have been identified as ‘Key Management Personnel’ (KMP) for Accounting and Financial Reporting purposes.

44.3 Compensation of Key Management Personnel of the Bank

The following represents the compensation paid to Key Management Personnel of the Bank.

As at 31st December	2019 Rs.	2018 Rs.
Short-term Benefits	57,800,147	58,399,325
Retirement Benefits	3,476,915	3,213,183
	61,277,062	61,612,508

Short-term benefits represent salaries, bonuses and other related expenses of Chief Executive Officer/Director and fees paid to Non Executive Directors including the Chairman. Retirement Benefits includes the Bank's contribution for Employees' Provident Fund and Employees' Trust Fund with regard to KMP's.

44.4 Transactions with Key Management Personnel of the Bank

The Bank enters into transactions, arrangements and agreements with Key Management Personnel and Close family members of Key Management Personnel in the ordinary course of business. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest/commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for individual impairment losses on amounts owed by the Key Management Personnel and their Close Family Members.

	2019 Rs.	2018 Rs.
Assets		
Loans and Advances	50,163,995	50,000,868
Liabilities		
Deposits and Borrowings	393,197,009	425,926,684
Income and Expenses		
Interest Income	2,130,776	1,257,466
Interest Expense	51,968,199	46,884,546
Fee and Commission Income	39,082	30,425

44.5 Transactions with Other Related Parties of the Bank

In addition to transactions with Key Management Personnel and their Close Family Members, the Bank enters into transactions, arrangements and agreements with entities that are controlled or joint controlled by the Key Management Personnel and their Close Family Members in the ordinary course of business. The transactions below were made in the ordinary course of business on substantially the same terms, including interest/commission rates and security, as for comparable transactions with unrelated counterparties. The transaction did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for individual impairment losses on amounts owed by related parties.

	2019 Rs.	2018 Rs.
Liabilities		
Deposits	2,933,531	6,182,826
Income and Expenses		
Interest Income	-	584
Interest Expense	366,339	285,965
Fee and Commission Income	10,500	22,850

45 EVENTS AFTER THE REPORTING DATE

There were no events after the reporting date which require adjustments to or disclosures in the Financial Statements, other than disclosed below.

45.1 Debenture Issue 2020/2025

The Bank announced a debenture issue on 16th January 2020, of an initial issue of up to 7,500,000 BASEL III complaint-Tier 2, unlisted, unsecured, subordinated, redeemable 05 year debentures at an issue price of Rs.100 each with a non-viability conversion clause with an option to issue up to a further 5,000,000 of said Debentures at the discretion of the Bank in the event of an over subscription of the initial issue with a maximum tenure of 5 years, subject to necessary regulatory and other approvals.

45.2 Amendments to the Income Tax Law Announced by the Government

The corporate income tax rate of banks is proposed to be reduced from 28% to 24% with effective from the Year of Assessment 2020/21, subject to the ratification of the parliament. The Bank has not considered the resultant impact in computation of deferred tax liabilities as at 31st December 2019 as relevant provisions are yet to be legislated. Had the resultant impact been adjusted, the net deferred tax liability as at 31st December 2019 would have been reduced by Rs.18,968,639/-. Further the deferred tax charge (income tax expense) for the year ended 31st December 2019 would have been increased by Rs. 22,323,398/- and deferred tax effect (expense) of the items that are routed through other comprehensive income (not re-classified to profit or loss) would have been reduced by Rs. 41,292,038/-.

46 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital requirements of the local prudential regulator, Central Bank of Sri Lanka. The adequacy of the Bank's Capital is monitored using among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BCBS) and adopted by the Central Bank of Sri Lanka.

Capital Management

The main objectives of the Bank's capital management policy are to ensure the Bank maintain sufficient capital to meet regulatory capital requirements, hold sufficient capital to support the Bank's risk appetite, provide additional capital to business segments to achieve strategic objectives, to provide a buffer in absorbing potential losses arising from various risks and safeguarding of depositor funds and ensuring that the Bank maintaining required capital levels in order to achieve credit rating objectives.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to the shareholders, return capital to shareholders or issue capital securities, all of which are under the constant review by the Board of Directors and the Board Committees.

The Banking Act Direction No. 01 of 2016 on "Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's)" prescribes minimum capitals ratios for banks depending on the size of the asset base and other factors. The Non Systematically Important Banks including Pan Asia Banking Corporation PLC needs to maintain following minimum capital ratio requirements with effective from 1st January 2019.

Components of Capital	Requirement
Common Equity Tier 1 Including Capital Conservation Buffer	7.00%
Total Tier 1 Including Capital Conservation Buffer	8.50%
Total Capital Ratio Including Capital Conservation Buffer	12.50%

The 'Total Capital' under BASEL III consists Common Equity Tier 1 Capital, which comprises Stated Capital, Statutory Reserve Fund, Published Retained Earnings and Other General Reserves less Cost of Intangible Assets (Adjustments). The other component of Tier 1 Capital is Additional Tier 1 Capital, while the Bank has no any Additional Tier 1 capital instruments at the end of the reporting period. Tier 2 Capital is the other component of the Total Capital which includes Approved Revaluation Surpluses, Subordinated Term Debt, 100% of impairment for Stage 1 assets and 50% of impairment for Stage 2 assets under SLFRS subject to maximum limit of 1.25% RWA in Credit Risk.

The Bank reported a Common Equity Tier 1 (CET 1) Capital Ratio of 12.87%, Total Tier 1 Capital Ratio of 12.87% and Total Capital Ratio of 14.31% as at 31st December 2019 which remain well above the minimum regulatory requirements. The Bank has absorbed 50% of the day 1 impact of SLFRS 9 adoption in computation of the above capital ratios as at 31st December 2019 as prescribed by Central Bank of Sri Lanka in the Guideline No. 04 of 2018 on 'Adoption of SLFRS 9 - Financial Instruments'. Had SLFRS 9 day 1 impact not been absorbed to retained earnings, all regulatory capital ratios would have been improved by 50 basis points each.

In addition to above, the Bank needs to enhance its Total Tier 1 Capital to Rs. 20 billion by 31st December 2020 as required by the Banking Act Direction No. 05 of 2017 on 'Enhancement of Minimum Capital Requirements of Banks'. As at 31st December 2019, the Bank's Tier 1 Capital stood at Rs.12.85 billion. The Board of Directors foresees that the above capital requirement needs to be met through a combination of internally generated funds of the Bank and infusion of fresh capital. As at the date of the approving these financial statements, the Bank is engaged in discussions with the key shareholders and the industry prudential regulator on raising capital externally. The Board of Directors are confident that these discussions will be successful.

The Bank expects to submit a revised Capital Augmentation Plan to meet the above capital requirements to the industry prudential regulator with the Annual Internal Capital Adequacy Assessment Process (ICAAP) Document by 31st May 2020 in accordance with the Banking Act Direction No. 01 of 2016 on "Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's)".

Notes to the Financial Statements

47 SEGMENT REPORTING

	2019			
	Retail & SME Banking Rs.	Corporate Banking Rs.	Treasury and Investments Rs.	Total Rs.
Gross Income				
Third Party	16,121,442,657	2,168,459,264	3,617,760,137	21,907,662,058
Inter-Segment	2,309,682,413	(166,354,551)	(2,143,327,862)	-
Total Income	18,431,125,070	2,002,104,713	1,474,432,275	21,907,662,058
Extract of Results				
Interest Income	14,487,656,914	2,112,016,367	2,816,932,571	19,416,605,852
Interest Expense	(11,354,490,149)	(1,355,788,567)	(71,738,654)	(12,782,017,370)
Inter - Segment	2,309,682,413	(166,354,551)	(2,143,327,862)	-
Net Interest Income	5,442,849,178	589,873,249	601,866,055	6,634,588,482
Fees and Commission Income	1,548,451,568	57,425,440	-	1,605,877,008
Fees and Commission Expense	(48,873,315)	-	(11,685,737)	(60,559,052)
Net Fee and Commission Income	1,499,578,253	57,425,440	(11,685,737)	1,545,317,956
Net Gain from Trading	28,213,271	-	621,363,605	649,576,876
Other Operating Income	57,120,904	(982,543)	179,463,961	235,602,322
Total Operating Income	7,027,761,606	646,316,146	1,391,007,884	9,065,085,636
Impairment Charges on Financial Assets	(705,843,262)	(387,454,355)	(43,545,241)	(1,136,842,858)
Net Operating Income	6,321,918,344	258,861,791	1,347,462,643	7,928,242,778
Depreciation of Property, Plant and Equipment	124,293,849	13,501,580	9,943,120	147,738,549
Amortisation of Intangible Assets	31,497,876	3,421,497	2,519,730	37,439,103
Segment Result	6,166,126,619	241,938,714	1,334,999,793	7,743,065,126
Un-allocated Expenses	-	-	-	4,340,385,939
Operating Profit Before Taxes and Levies on Financial Services	-	-	-	3,402,679,187
Taxes and Levies on Financial Services	-	-	-	1,088,540,188
Profit Before Tax	-	-	-	2,314,138,999
Income Tax Expense	-	-	-	563,569,904
Profit for the Year	-	-	-	1,750,569,095
Other Comprehensive Income for the Year	-	-	-	331,575,855
Total Comprehensive Income for the Year	-	-	-	2,082,144,950
Segment Assets	100,464,373,579	14,067,094,669	30,664,738,254	145,196,206,502
Unallocated Assets	-	-	-	7,783,488,974
Total Assets	100,464,373,579	14,067,094,669	30,664,738,254	152,979,695,476
Segment Liabilities	123,894,664,025	7,019,287,713	4,096,858,689	135,010,810,427
Unallocated Liabilities and Equity	-	-	-	17,968,885,049
Total Liabilities and Equity	123,894,664,025	7,019,287,713	4,096,858,689	152,979,695,476

	2018			
	Retail & SME Banking Rs.	Corporate Banking Rs.	Treasury and Investments Rs.	Total Rs.
Gross Income				
Third Party	15,864,704,101	2,586,890,565	3,220,598,802	21,672,193,468
Inter-Segment	1,693,673,114	322,340,124	(2,016,013,238)	-
Total Income	17,558,377,215	2,909,230,689	1,204,585,564	21,672,193,468
Extract of Results				
Interest Income	14,220,956,244	2,519,028,371	2,417,151,047	19,157,135,662
Interest Expense	(10,492,488,280)	(2,059,685,261)	(86,667,560)	(12,638,841,101)
Inter - Segment	1,693,673,114	322,340,124	(2,016,013,238)	-
Net Interest Income	5,422,141,078	781,683,234	314,470,249	6,518,294,561
Fees and Commission Income	1,567,773,721	58,632,159	4,000	1,626,409,880
Fees and Commission Expense	(95,225,962)	-	(11,502,787)	(106,728,749)
Net Fee and Commission Income	1,472,547,759	58,632,159	(11,498,787)	1,519,681,131
Net Gain from Trading	(478,825)	-	476,908,684	476,429,859
Other Operating Income	76,452,962	9,230,035	326,535,070	412,218,067
Total Operating Income	6,970,662,974	849,545,428	1,106,415,216	8,926,623,618
Impairment Charges on Financial Assets	(1,070,316,331)	(914,303,157)	(32,527,044)	(2,017,146,532)
Net Operating Income	5,900,346,643	(64,757,729)	1,073,888,172	6,909,477,086
Depreciation of Property, Plant and Equipment	129,175,303	21,402,932	8,862,021	159,440,256
Amortisation of Intangible Assets	27,846,605	4,613,877	1,910,405	34,370,887
Segment Result	5,743,324,735	(90,774,538)	1,063,115,746	6,715,665,943
Un-allocated Expenses	-	-	-	4,115,010,458
Operating Profit Before Taxes and Levies on Financial Services	-	-	-	2,600,655,485
Taxes and Levies on Financial Services	-	-	-	690,998,636
Profit Before Tax	-	-	-	1,909,656,849
Income Tax Expense	-	-	-	368,014,002
Profit for the Year	-	-	-	1,541,642,847
Other Comprehensive Income for the Year	-	-	-	18,382,696
Total Comprehensive Income for the Year	-	-	-	1,560,025,543
Segment Assets	93,172,489,572	17,135,674,658	35,006,624,033	145,314,788,263
Unallocated Assets				8,711,494,560
Total Assets	93,172,489,572	17,135,674,658	35,006,624,033	154,026,282,823
Segment Liabilities	111,294,605,678	26,617,129,552	1,564,725,192	139,476,460,422
Unallocated Liabilities and Equity				14,549,822,401
Total Liabilities and Equity	111,294,605,678	26,617,129,552	1,564,725,192	154,026,282,823

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

The following explains the Other Disclosure Requirements under the prescribed format issued by the Central Bank of Sri Lanka for the Preparation of Annual Financial Statements of Licensed Commercial Banks.

1.	Information about the Significance of Financial Instruments for Financial Position and Performance		
1.1	Statement of Financial Position		
1.1.1	Disclosures on categories of financial assets and financial liabilities.		Note 36 to the Financial Statements - Analysis of Financial Assets and Liabilities by Measurement basis
1.1.2	Other Disclosures		
	(i)	Special disclosures about financial assets and financial liabilities designated to be measured at Fair Value through Profit or Loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Not Applicable
	(ii)	Reclassifications of financial instruments from one category to another.	Not Applicable
	(iii)	Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 20.2 to the Financial Statements - Financial Assets at Amortised Cost - Debt and Other Instruments
	(iv)	Reconciliation of the allowance account for credit losses by class of financial assets.	Note 15.1, 19.5, 20 and 30.1 to the Financial Statements
	(v)	Information about compound financial instruments with multiple embedded derivatives.	Not Applicable
	(vi)	Significant Breaches of terms of loan agreements.	There are no significant breaches of the terms of loan agreements
1.2	Statement of Comprehensive Income		
1.2.1	Disclosures on items of income, expense, gains and losses.		Note 5-13 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 5.2 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 6 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 Charges on Financial Assets
	(iv)	Interest income on impaired (non performing) financial assets.	Note 5.3 to the Financial Statements
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	Financial liabilities designated as at FVTPL		
	(i)	If a bank is presenting the effects of changes in that financial liability's credit risk in other comprehensive income (OCI): - any transfers of the cumulative gain/loss within equity during the period, including the reasons for the transfers; - if the liability is derecognised during the period, then the amount (if any) presented in OCI that was realised at derecognition; - detailed description of the methodologies used to determine whether presenting the effects of changes in a liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss; and	Not Applicable
	(ii)	Detailed description, if the effects of changes in a liability's credit risk are presented in profit or loss.	Not Applicable

1.3.3	Investments in equity instruments designated as at FVOCI		
	(i)	Details of equity instruments that have been designated as at FVOCI and the reasons for the designation;	Not Applicable
	(ii)	Fair value of each investment at the reporting date;	Not Applicable
	(iii)	Dividends recognised during the period, separately for investments derecognised during the reporting period and those held at the reporting date;	Not Applicable
	(iv)	Any transfers of the cumulative gain or loss within equity during the period and the reasons for those transfers;	Not Applicable
	(v)	If investments in equity instruments measured at FVOCI are derecognised during the reporting period, - reasons for disposing of the investments; - fair value of the investments at the date of derecognition; and - the cumulative gain or loss on disposal	Not Applicable
1.3.4	Reclassifications of financial assets		
	(i)	For all reclassifications of financial assets in the current or previous reporting period: - date of reclassifications; - detailed explanation of the change in the business model and a qualitative description of its effect on the financial statements; and - the amount reclassified into and out of each category.	Not Applicable
	(ii)	For reclassifications from FVTPL to amortised cost or FVOCI: - the effective interest rate (EIR) determined on the date of reclassification; and - the interest revenue recognised.	Not Applicable
	(iii)	For reclassifications from FVOCI to amortised cost, or from FVTPL to amortised cost or FVOCI: - the fair value of the financial assets at the reporting date; and - the fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified.	Not Applicable
1.3.5	Information on hedge accounting		Not Applicable
1.3.6	Information about the fair values of each class of financial asset and financial liability, along with:		
	(i)	Comparable Carrying Amounts.	Note 37 to the Financial Statements - Fair Value of Financial Instruments.
	(ii)	Description of how fair value was determined.	
	(iii)	The level of inputs used in determining fair value.	
	(iv)	(a) Reconciliations of movements between levels of fair value measurement hierarchy.	Not Applicable
		(b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	Not Applicable
	(v)	Information if fair value cannot be reliably measured.	Not Applicable

FINANCIAL AND INVESTOR INFORMATION

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

2	Information about the Nature and Extent of Risks Arising from Financial Instruments		
2.1	Qualitative Disclosures		
2.1.1	Risk exposures for each type of financial instrument.		Note 38 to the Financial Statements - Risk Management
2.1.2	Management's objectives, policies, and processes for managing those risks		Note 38 to the Financial Statements - Risk Management
2.13	Changes from the prior period.		Not Applicable
2.2	Quantitative Disclosures		
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.		Note 38 to the Financial Statements - Risk Management
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.		Note 38 to the Financial Statements - Risk Management
	(i)	Credit Risk	
		- Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets. - For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset. - Information about collateral or other credit enhancements obtained or called.	Note 38.2 to the Financial Statements - Risk Management
		- Other disclosures refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Basel III Pillar 3 Disclosures on pages 241 to 244
	(ii)	Liquidity Risk	
		- A maturity analysis of financial liabilities. - Description of approach to risk management.	Note 38.3 to the Financial Statements - Risk Management Report on pages 202 to 206
		- Other disclosures refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 01 of 2016 on Capital Requirements Under Basel III for Licensed Banks.	Basel III Pillar 3 Disclosures on pages 249 to 252
	(iii)	Market Risk	
		- A sensitivity analysis of each type of market risk to which the entity is exposed. - Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	Note 38.4 to the Financial Statements - Risk Management Report on pages 207 to 210
		- Other disclosures, refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Basel III Pillar 3 Disclosures on pages 248 to 249
	(iv)	Operational Risk	
		- Refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Basel III Pillar 3 Disclosures on pages 252 to 255

	(v)	Equity risk in the Banking Book - Qualitative disclosures Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 38.4 to the Financial Statements - Risk Management Report on pages 207 to 210
		- Quantitative disclosures Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value, the types and the nature of investments and the cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Note 18.1 to the Financial Statements – Financial Assets at Fair Value through Profit or Loss
	(vi)	Interest rate risk in the Banking Book - Qualitative disclosures Nature of interest rate risk in the banking book (IRRBB) and key assumptions. - Quantitative disclosures The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	Basel III Pillar 3 Disclosures on page 255
2.2.3	Information on concentration of risk		Note 38.2.9 to the Financial Statements - Risk Management Report on pages 199 to 201
3	Other Disclosures		
3.1	Capital		
3.1.1		Capital structure Qualitative disclosures - Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments. - Quantitative disclosures. (a) The amount of Tier 1 capital, with separate disclosure of: - Paid-up share capital/common stock - Reserves - Non-controlling interests in the equity of subsidiaries - Innovative instruments - Other capital instruments - Deductions from Tier 1 capital (b) The total amount of Tier 2 capital (c) Other deductions from capital (d) Total eligible capital	Basel III Pillar 3 Disclosures on pages 232 to 237
3.1.2	Capital Adequacy		
		Qualitative disclosures - A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities. - Quantitative disclosures (a) Capital requirements for credit risk, market risk and operational risk (b) Total and Tier 1 capital ratio	Basel III Pillar 3 Disclosures on pages 226 to 255

Basel III Pillar 3 Disclosures

Contents

Introduction

The Bank recognises, best corporate governance practices jointly with effective risk management techniques which directs Bank towards the sustainable achievement in business goals while staying above the minimum regulatory requirements. The Banks usually operate in a vulnerable environment and are highly exposed to risk. Therefore, the Bank places a higher emphasis on a continuous basis on improving risk management processes and operating with sufficient level of capital to support its risk absorption capacity and business expansions. The Bank's risk management team has to play a vital role in maintaining prudential risk management practices across the Bank which enables early detection of down side risks in all its businesses and other operations.

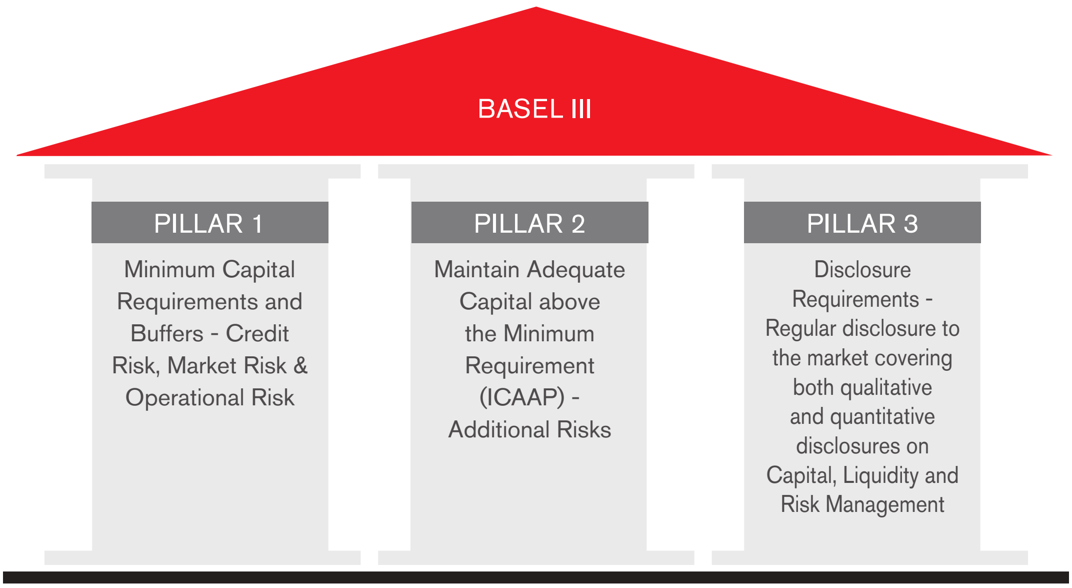
Based on empirical data and close analysis of market behaviour, the Bank is of the belief that effective investment in robust risk management practices would facilitate in mitigating the credit, market, operational and the other risk factors facing the Bank.

Further use of market discipline is deemed to be an important driver in the enhancement of the risk management system from the Bank as well as the stakeholders' perspective. Therefore, the Bank believes comprehensive disclosure of capital level in relation to the credit risk, market risk and operational risk levels would fulfill the expectations of the regulators as well as other stakeholders at large.

Scope of Basel III Framework

The Basel Committee on Bank Supervision (BCBS) has implemented a set of capital, liquidity and funding reforms known as "Basel III". The objectives of reforms are to increase the quality, consistency and transparency of capital to enhance the risk management framework of Licensed Banks.

Accordingly, the Central Bank of Sri Lanka has issued Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's) on 29th December 2016. As per the direction, Capital Requirements applicable for a Licensed Commercial Bank from 1st July 2017 onwards consist of three pillars.



Pillar 1 - Minimum Capital Requirements and Buffers

Commencing from 1st July 2017, every LCB & LSB has to comply with minimum capital ratios and the buffers as prescribed in the direction. The minimum required capital ratios vary among the Banks depending on the size of the asset base. For the purpose of the direction, Central Bank of Sri Lanka has identified Banks with over Rs.500 billion asset base as "Domestic Systemically Important Banks (D-SIB's)" and prescribed higher minimum Capital buffers than that of banks with less than Rs.500 billion assets.

Basel III Pillar 3 Disclosures

Accordingly, the Banks have to maintain capital ratios and the buffers as prescribed in the below tables;

Minimum Capital Ratio Requirement for Banks with Assets of Rs.500 billion and above (Table 1)

Components of Capital	01.01.2019
Common Equity Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	8.50%
Total Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	10.00%
Total Capital Ratio Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	14.00%

Minimum Capital Ratio Requirement for Banks with Assets less than Rs.500 billion (Table 2)

Components of Capital	01.01.2019
Common Equity Tier 1 Including Capital Conservation Buffer	7.00%
Total Tier 1 Including Capital Conservation Buffer	8.50%
Total Capital Ratio Including Capital Conservation Buffer	12.50%

Since the Bank's asset base is below Rs. 500 billion at the moment, minimum capital ratio requirement stipulated in Table 2 applies.

Higher Loss Absorbency (HLA) Requirements for Domestic Systemically Important Banks (D-SIBs)

Monetary Board of Central Bank has issued Banking Act Direction No.10 of 2019 "Framework for Dealing with Domestic Systemically Important Banks" on 20th December 2019.

This framework attempts to identify the banks whose failure has a larger impact on the financial system due to size, interconnectedness, lack of substitutability and complexity and requires maintaining Higher Loss Absorbency (HLA) by such banks.

Primary objective of the implementation of the D-SIBs framework is D-SIBs to hold higher capital buffers and to provide incentives to reduce their systemic importance on the domestic economy.

The minimum capital surcharge on D-SIBs are as follows:

Bucket	HLA Requirement (CET 1 as a % of Risk-Weighted Assets)
3	2.0
2	1.5
1	1.0

Factors Considered in Assessment of D-SIBs

Category	Individual Indicator	Category Weighting
Size	Total exposure (Total exposures used in the Basel III leverage ratio)	40%
Interconnectedness	Intra-financial system assets Intra-financial system liabilities Securities outstanding	20%
Substitutability/financial institution infrastructure	Assets under custody Trading volume Payments activity	20%
Complexity	Notional amount of derivatives Level 2 assets as reported under Liquidity Coverage Ratio Cross jurisdictional liabilities Cross jurisdictional claims Trading and Available For Sale (AFS) securities	20%

Licensed banks which are determined as D-SIBs, from time to time have to maintain additional HLA requirements as specified by the Monetary Board in the form of Common Equity Tier 1 Capital.

The Central Bank of Sri Lanka has specified the below operational timeline to implement the proposed framework.

Time	Task
April - 2020	Collect data from the selected banks
August - 2020	Assess collected data and identify the list of D-SIBs
October - 2020	Publish the list of D-SIBs that are subject to HLA requirement with the approval of the Monetary Board

The Monetary Board has determined the following licensed banks as D-SIBs and permitted below HLA requirements with immediate effect.

Licensed Banks Determined as D-SIBs

Bucket	Licensed Banks	HLA Requirement (CETI as a % of Risk-Weighted Assets)
3	N/A	2.0
2	Bank of Ceylon Commercial Bank of Ceylon PLC	1.5
1	People's Bank Hatton National Bank PLC	1.0

However as per eligible criterion defined in the direction to be categorised as D-SIB, it is likely that additional HLA capital requirements will not be applicable for our Bank given the total exposure measure coming under Leverage Ratio is account for below the minimum exposure value of Rs. 400 billion specified by the regulator under disclosure requirements in the directions.

The Bank's Total exposures coming under Basel III leverage ratio was Rs.178.17 billion as at 31st December 2019.

Basel III Pillar 3 Disclosures

Pillar 2 - Maintain Adequate Capital above the Minimum Requirement (ICAAP)

The Bank needs to maintain adequate capital buffers to safeguard itself from the exposure to risk as specified in the direction. Under Pillar 2, a Board approved ICAAP document needs to be submitted to the Central Bank for supervisory review process. ICAAP lets Banks to identify, analyse and quantify its risk exposures using different methodologies, techniques and to quantify required level of capital to absorb the risks.

Further under Pillar 2, Banks are instructed to scrutinise different types of risks which are not covered/fully captured under Pillar 1. Accordingly, following risk categories also need to be quantified and allocation of capital needs to be done in computing the Pillar 2 Capital Ratios.

- Risks not fully captured under Pillar 1 - Concentration risk (credit risk), interest rate/rate of return risk in the Banking book (market risk) etc.
- Risk types not covered under Pillar 1 - Liquidity risk, concentration risk, reputational risk, compliance risk, strategic and business risk, residual risk. etc. (risks which are not specifically addressed under Pillar 1)

The Bank has already developed an ICAAP policy and framework which closely indicate the risk and capital assessment processes which ensures that adequate level of capital are maintained to support the Bank's current and projected demand for capital under expected and stressed conditions.

Pillar 3 - Disclosure Requirements

Commencing from 1st July 2017, the Bank needs to disclose the regulator prescribed key information in relation to regulatory capital, liquidity and risk management with the published financial statements, in the annual report and in the web site.

Pillar 3 aims to provide consistent and comprehensive disclosure framework that enhances comparability between Banks and further promotes improvements in risk practices.

The Bank has implemented a Pillar 3 policy and procedure framework to address the requirements laid down for Pillar 3 disclosures.

The complete disclosure report of information regarding capital management in accordance with Basel III- Pillar 3 is provided of which quantitative information regarding capital structure, capital adequacy and monitoring of liquidity standards is disclosed on a quarterly basis. The disclosures on Bank's risk management approach and risk management related to key risk exposures are disclosed on an annual basis.

Scope of Application

In compliance with the requirements under Basel III Pillar 3 and the Bank's approved policies, the Bank discloses below set of information on quarterly and annually as prescribed by CBSL.

1) Regulatory Requirements on Capital Adequacy and Liquidity

i) Key Regulatory Ratios - Capital and Liquidity
ii) Basel III Computation of Capital Adequacy Ratio
iii) Basel III Computation of Leverage Ratio
iv) Basel III Computation of Liquidity Coverage Ratio
v) Basel III Computation of Net Stable Funding Ratio
vi) Main Features of Regulatory Capital Instruments

2) Risk Weighted Assets (RWA)

i) Capital Management
ii) Credit Risk under Standardised Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects
iii) Credit Risk under Standardised Approach - Exposures by Asset Classes and Risk Weights
iv) Market Risk under Standardised Measurement Method
v) Operational Risk under Basic Indicator Approach

3) Linkages Between Financial Statements & Regulatory Exposures

i) Differences Between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories

ii) Explanations of Differences Between Accounting and Regulatory Exposure Amounts

4) Risk Management

i) Bank's Risk Management Approach

ii) Risk Management related to Key Risk Exposures

Macro Economic Outlook

During year 2019 economy grew at a slower pace of 2.7% backed by political uncertainty and adverse macro economic factors. A notable slowdown was observed in the performance of the Services related activities, which were impacted severely by the Easter Sunday attacks.

Credit to private sector contracted during the year despite some pickup captured in last quarter. Market lending rates continued to adjust downward in response to monetary and regulatory measures taken by the Central Bank. Going forward, a steady revival of economic activity is envisaged, supported by improved political stability and short term measures to stimulate the economy. Further money and credit aggregates are expected to recover gradually with the expected continued decline in lending rates and other mechanisms that are being introduced to revive economic activities.

Operating in a very challenging, competitive and highly regulated surrounding, the Bank sustained its asset growth during the year while giving priority on achieving of regulatory requirements as well.

Due to proactive measures adopted by the Bank to preserve the capital, the Bank's Loans and Advances portfolio grew moderately during the year while ascertaining asset quality and overall liquidity. Even under less favorable monetary and economic conditions, the Bank recorded a post tax profit of Rs.1.75 billion in 2019 which accounts for a growth of 13.55% over the previous year.

Key Regulatory Ratios - Capital and Liquidity

As at 31st December	2019	2018
Regulatory Capital (Rs. 000)		
Total Common Equity Tier 1 Capital	12,853,473	11,341,900
Common Equity Tier 1 Capital	12,572,621	11,036,817
Tier 1 Capital	12,572,621	11,036,817
Total Capital	13,978,793	12,767,157
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 7.00%)	12.87	11.51
Tier 1 Capital Ratio (Minimum Requirement - 8.50%)	12.87	11.51
Total Capital Ratio (Minimum Requirement -12.50%)	14.31	13.32
Leverage Ratio (Minimum Requirement - 3%)	7.06	N/A
Regulatory Liquidity		
Statutory Liquid Assets DBU (Rs. 000)	33,932,700	41,565,575
Statutory Liquid Assets OBU (USD 000)	9,835	14,393
Statutory Liquidity Ratios		
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	24.93	29.17
Off-Shore Banking Unit (%)	23.61	20.09
Liquidity Coverage Ratio (Minimum Requirement - 100%)		
Rupee (%)	128.84	166.08
All Currency (%)	165.02	136.52
Net Stable Funding Ratio (%) - (Minimum Requirement - 100%)	128.24	N/A

Capital Management

Capital planning assists the Bank to determine how much capital it needs to continue its growth and produce meaningful earnings as well as to meet regulatory requirements. For an effective capital plan, the Bank should be able to anticipate;

- when it will be needed
- various methods of raising capital
- the current environment for raising capital
- the best way to protect/enhance shareholder value and the likely pricing of capital

Further the Bank's capital plan is dynamic and regularly reviews to reflect business forecasts as they evolve during the course of each year. The strategy setting and planning is presented to the Board of Directors on an annual basis with regular update on financial outlook and performance as to the capital adequacy is aligned with the business plan.

Capital planning of the Bank is mainly focus on;

- Demand for capital due to business growth forecasts
- Current and future regulatory capital requirements
- Available supply of capital and capital raising sources for future requirements

Overview of Capital Planning

The senior management of the Bank is responsible for the management of the capital & liquidity and establishment of compliance with internal policies as well as regulatory standards relating to capital & liquidity management.

The Bank's capital position is monitored on a continuous basis and reported to the Board Strategic Planning Committee meetings on a quarterly basis. The Bank sets the tolerance levels for capital adequacy ratios in the ICAAP mechanism and if any breach or non compliance to be foreseen, decisions are taken to enhance capital position or restructure business lines to fill the gap.

Further capital forecasts are performed in line with detailed strategic plan of the Bank which is updated on an annual basis. The Bank regularly monitors the actual position against the strategic measures and if any deviation to be captured, relevant business heads are informed of corrective actions.

In addition, significant emphasis is given to scrutinise the behavior of the material risk exposures. If any adverse movement is monitored in recovery patterns of the credit exposures on a regular basis, credit monitoring unit of the Bank stays on alert for early detection and recovery process before moving to non performing category. This is exactly why the Bank established a Post Disbursement Unit to ensure the facilities would not fall in to non performing status.

Manage the Risk Weighted Assets of the Bank

- Maintain Non Performing Loans (NPLs) level in accordance with the set targets by minimising new additions to past due and non performing categories.
- Regular monitoring of overdue loans position of the Bank and avert new NPLs.
- Ensure capital and interest recoveries are made to the Bank according to the forecasts.
- High yielding lending to good credit quality customers.
- Obtain eligible collateral for facilities to minimise capital charge on credit risk.
- Concentrate on customers with investment grade or above grades when granting facilities.
- More focus towards cash backed/government security backed lending carrying zero risk levels.
- Concentrate on Retail and SME lending with background checks in view of lower risk weight and lucrative returns.

Projected Capital Initiatives/Capital Sources

An assessment of the future capital requirement of the Bank is carried out by taking in to account several factors which include but not limited to the future strategy, growth projection and regulatory requirement. The adequacy of current and future capital is continuously monitored quite closely in line with the Bank's short, medium and long term goals stated in the strategic plan plus considering any emerging market opportunities. The proper mapping of credit, market and operational risk to this projected business growth enables assignment of capital that not only adequately covers minimum regulatory capital requirement but also provide headroom for growth.

The Bank complied with minimum regulatory capital and liquidity standards set for year 2019 with the contribution of anticipated internal capital generation over the period. However in view of further strengthening the total capital position and to support the forecasted credit growth, bank expect to issue Basel III compliant subordinated rupee debenture of Rs.750 million in 1st quarter 2020 (subject to maximum of Rs.1, 250 million in case of over subscription of the initial issue).

Complying with Rs.20 Billion Minimum Capital Requirements

As per the Banking Act Direction No. 05 of 2017 on "Enhancement of Minimum Capital Requirements of Banks" issued on 26th October 2017 by Central Bank of Sri Lanka, commencing from 31st December 2020 all Banks are mandated to enhance its Capital position (Common Equity Tier 1 Capital + Additional Tier 1 Capital) up to Rs. 20 billion from the current level.

As at 31st December 2019, Bank's Common Equity Tier 1 Capital stood at Rs.12.85 billion and Bank needs to enhance its Common Equity Tier 1 Capital to Rs. 20 billion by 31st December 2020. The Bank expects to submit a revised Capital Augmentation Plan to meet the above capital requirements to the industry prudential regulator with the Annual Internal Capital Adequacy Assessment Process (ICAAP) Document by 31st May 2020 in accordance with the Banking Act Direction No. 01 of 2016 on "Capital Requirement under Basel III for Licensed Commercial Banks (LCB's) and Licensed Specialised Banks (LSB's)".

Capital Structure and Capital Adequacy

The Bank's capital structure according to the Banking Act Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB) and Licensed Specialised Banks (LSB) is revised in to Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital.

Common Equity Tier 1 (CET 1) Capital of the Bank comprises;

- Stated Capital
- Retained Earnings after appropriation
- Statutory Reserve Fund

At present the Bank has no instrument eligible for Additional Tier 1 (AT1) Capital.

Tier 2 Capital Comprises;

- Eligible Subordinated Debt instruments (limited to 50% of CET 1 Capital)
- 100% of impairment for assets in Stage 1 & 50% of impairment for assets in Stage 2 under SLFRS subject to maximum limit of 1.25% Risk Weighted Assets in Credit Risk
- Approved Revaluation Surpluses on Freehold Land and Building (Subject to a discount of 50%)

As per the regulatory directive, maximum eligible Tier 2 capital is capped at 100% of CET1 Capital.

Basel III Pillar 3 Disclosures

The Structure of the total Regulatory Capital of the Bank as at 31st December 2019 is as follows,

As at 31st December 2019	Rs. 000
Common Equity Tier I (CETI) Capital after Adjustments	12,572,621
Total Common Equity Tier I (CET1) Capital before Adjustments	12,853,473
Stated Capital	3,614,253
Reserve Fund	538,717
Published Retained Earnings*	8,722,794
Published Accumulated Other Comprehensive Income (OCI)	(22,292)
Total Adjustments to CET1 Capital	280,852
Other Intangible Assets (net)	280,852
Additional Tier 1 (AT1) Capital after Adjustments	-
Tier 2 Capital after Adjustments	1,406,172
Total Tier 2 Capital	1,406,172
Qualifying Tier 2 Capital Instruments	-
Revaluation Gains	308,496
Eligible Provisions	1,097,676
Total Adjustments to Tier 2 Capital	-
Total Tier 1 Capital	12,572,621
Total Capital	13,978,793

* Note: As per the CBSL direction No. 04 of 2018 on 'Adoption of Sri Lanka Accounting Standard - SLFRS 9 : Financial Instruments, the Bank staggered the impact of additional impairment provisions (net of deferred tax) as at the date of transition, for the purpose of calculating Capital Adequacy Ratio (CAR %). Accordingly, the Bank has absorbed only 50% of the day 1 impact into the Retained Earnings for the purpose of computing CAR% as at 31st December 2019.

Basel III Computation of Capital Ratios

As at 31st December	2019 Rs. 000	2018 Rs. 000
Common Equity Tier 1 (CET1) Capital after Adjustments	12,572,621	11,036,817
Common Equity Tier 1 (CET1) Capital	12,853,473	11,341,900
Stated Capital	3,614,253	3,614,253
Reserve Fund	538,717	451,189
Published Retained Earnings	8,722,794	7,294,841
Published Accumulated Other Comprehensive Income (OCI)	(22,292)	(18,383)
General and other Disclosed Reserves	-	-
Unpublished Current Year's Profit/Losses and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to CET1 Capital	280,852	305,083
Goodwill (net)	-	-
Intangible Assets (net)	280,852	305,083
Others	-	-
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (ATI) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others	-	-
Tier 2 Capital after Adjustments	1,406,172	1,730,340
Tier 2 Capital	1,406,172	1,730,340
Qualifying Tier 2 Capital Instruments	-	450,000
Revaluation Gains	308,496	311,906
Eligible Provisions	1,097,676	968,434
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2 Capital	-	-
Investment in Own Shares	-	-
Others	-	-
CET1 Capital	12,572,621	11,036,817
Total Tier 1 Capital	12,572,621	11,036,817
Total Capital	13,978,793	12,767,157
Total Risk Weighted Assets (RWA)	97,719,112	95,854,315
RWAs for Credit Risk	87,814,094	86,562,741
RWAs for Market Risk	37,736	51,471
RWAs for Operational Risk	9,867,281	9,240,103
CET1 Capital Adequacy Ratio (including Capital Conservation Buffer) (%)	12.87	11.51
of which: Capital Conservation Buffer (%)	2.50	1.88
Total Tier 1 Capital Adequacy Ratio (%)	12.87	11.51
Total Capital Adequacy Ratio (including Capital Conservation Buffer) (%)	14.31	13.32
of which: Capital Conservation Buffer (%)	2.50	1.88

Basel III Pillar 3 Disclosures

Regulatory Changes/Capital Initiatives over the Period

- Tier 1 Capital has been changed during the period due to capitalisation of internal capital generation for 2019.
- Tier 2 Capital has been changed due to movements in impairment provision for stage 1 & stage 2 assets.
- Further Subordinated debenture Rs. 3 billion eligible under Basel II capital instrument got matured in year 2019 and no any subordinated debt was available at the end of the year 2019.

Leverage Ratio

The Basel Committee on Banking Supervision (BCBS) introduced a leverage ratio in the 2010 under Basel III package of reforms with intention of introducing a framework with a simple, transparent, non-risk based.

The Leverage Ratio to act as a credible supplementary measure to the risk based capital requirement in order to restrict the build-up of leverage in the banking sector, helping to avoid any destabilising deleveraging processes which can damage the broader financial system and the economy, and reinforce the risk-based requirements with a simple, non-risk based "backstop" measure.

The Central Bank has issued Direction No. 12 of 2018 on "Leverage Ratio under Basel III for Licensed Commercial Banks and Licensed Specialised Banks" on 28th December 2018.

Commencing from 1st January 2019, the minimum Leverage Ratio for licensed banks shall be 3% and need to be computed as prescribed below.

$$\text{Leverage Ratio} = \frac{\text{Capital Measure}}{\text{Exposure Measure}} \times 100$$

Capital Measure is the Tier 1 Capital as specified in the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III and both on and off balance sheet exposures including derivative exposures has to be considered under exposure measure.

As at 31st December	2019 Rs. 000	2018 Rs. 000
Tier 1 Capital	12,572,621	N/A
Total Exposures	178,168,232	N/A
On-Balance Sheet Items (excluding Derivatives and securities Financing Transactions, but including Collateral)	150,145,299	N/A
Derivative Exposures	19,792,154	N/A
Securities Financing Transaction Exposures	5,213,808	N/A
Other Off-Balance Sheet Exposures	3,016,971	N/A
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)* 100	7.06	N/A

Main Features of Regulatory Capital Instruments

	Ordinary Shares
Issuer	Pan Asia Banking Corporation PLC
CSE Security Code	PABC N0000
Governing Law(s) of the Instrument	Companies Act, No.7 of 2007
Original Date of Issuance	Multiple
Par Value of Instrument (Rs.)	N/A
Perpetual or Dated	Perpetual
Original Maturity Date	N/A
Regulatory Treatment	
Instrument Type	Common Equity Tier 1
Amount recognised in Regulatory Capital (in Rs million)	3,614
Accounting Classification (Equity/Liability)	Shareholders' Equity
Issuer Call subject to Prior Supervisory Approval	No
Optional Call Date, Contingent Call Dates and Redemption Amount	N/A
Coupons/Dividends	
Fixed or Floating Dividend/Coupon	Discretionary dividend amount
Coupon Rate and any Related Index	Distributable profit that has been declared as dividend
Non-Cumulative or Cumulative	Non Cumulative
Convertibility	Non Convertible

Risk Management Approach

Managing risk constitutes an integral part in the role of banking operations and also in the areas of strategic decisions of the Bank. The main objective of the Bank's risk management unit is to asses various risk factors that affect the Bank and to develop risk mitigating techniques incorporating industry best practices and stipulations given by the regulator. The Bank's exposure to risk can be broadly categorised into credit risk, market risk and operational risk. In addition to these risks, the impact of other risks such as liquidity risk, reputational risk, compliance risk, strategic risk, information security risk and legal risk are monitored to avoid any additional impact to the Bank. Therefore, the Bank has set up separate units to manage credit, market, operational and information security risks.

The overall risk management aspects of the Bank are reviewed via risk goals and tolerance/exposure limits set by the Board Integrated Risk Management Committee.

The high-level principles for risk management are implemented through policies, operational procedures, guidelines as well as methodologies, tolerance & exposure limits and tools for risk measuring, monitoring and reporting. The risk management framework of the Bank is formed by incorporating all these factors and same is illustrated in the below diagram.

Basel III Pillar 3 Disclosures

Further information Risk Management can be found in;

- Risk Management objectives, policies and processes and Risk Management structure - page 188 of Bank's Annual Report 2019
- Risk Management function – page 189 of Bank's Annual Report 2019

Channels to communicate and inculcating the risk culture within the Bank

The responsibility of understanding the risks assumed by the Bank and ensuring that the risks are appropriately managed is vested with the Board of Directors. The Board ensures that the Bank has established a robust and acceptable risk culture with clear policies that define risk management as the responsibility of Bank's corporate and senior management subject to the oversight of the Board establishing limits based on risk appetite of the Bank. The senior management has established an integrated risk management framework in order to assess and appropriately manage various risk exposures of the Bank, develop systems to monitor risk exposures and relate them to Bank's capital on an ongoing basis, establishing methods to monitor the Bank's compliance with internal policies relating to risk management and effectively communicate all policies and procedures throughout the Bank via Bank's intranet and training programmes. All policies and procedures are effectively documented in the form of policy manuals, circular instruction, work flow processes and published in the Bank's intranet to provide the access to all staff members of the Bank.

The scope and main features of risk measurement systems for key risks

The Bank continuously reviews and improves risk assessment tools for different types of risks that the Bank faces in line with the growth of portfolios. The tools including credit rating and credit scoring tools are implemented in systems to ensure efficiency of rating/scoring and model performance monitoring. Moreover, the Bank has also put in place of a Risk aggregation matrix to assess the overall risk of the Bank by aggregating the overall score of each risk area. Risk dash boards are maintained to monitor all risk parameters and stress tests are being carried out in regular intervals, under various possible stress scenarios, to access the Bank's ability to face those conditions comfortably if those scenarios are actually triggered.

Process of risk information reporting provided to the board and senior management

The Bank's risks are recorded according to the breaches that have taken place, expected /predicted losses and unexpected cases which may arise in future. The estimated figures of cases are monitored on regular intervals for prevention and mitigations. These events are in line with the internal risk management processes established by the Bank. Monitoring of risk is carried out against predetermined limits as per policies. Management Information System reports are generated and submitted to the Corporate Management based on these risks indicators. Certain industries are identified specially and highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted on agreed intervals to the Board/Management committees to measure the risk exposure across all types of risks and activities. This contains the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports indicate aggregate credit exposures, credit metric forecasts, hold limit exceptions, liquidity ratios. Further elaborations are done on industry, concentration, customer and geographical risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored regularly for adherence. Delegated authority limits have been imposed to each approving authority in the business lines to control exposure to risks. Those outwit such limits are referred to Credit Risk Management Committee/Board Credit Committee for approval.

Stress Testing

Stress testing is an important risk management tool that is used by the Bank as part of their internal risk management measures. The Stress testing alerts the Bank management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur.

Moreover, stress testing is a tool that supplements other risk management approaches and measures. It plays a particularly important role in:

- Providing forward-looking assessments of risk.
- Feeding into capital and liquidity planning procedures.
- Informing the setting of the Banks' risk tolerance.
- Facilitating the development of risk mitigation or contingency plans across a range of stressed conditions.

The Main Risk drivers may be identified under following areas;

On and off balance sheet activities, business strategy, portfolio composition, asset quality, reputational events, operating environment, macro-economic factors (interest rate, foreign exchange rate, inflation, GDP growth, unemployment rate, asset prices, property price index), geographical and political factors, historical events; and latest development in the economic, political, geographical and global conditions and perspectives.

Stress Testing Approaches and Applications

Stress testing approaches that the Bank adopts to ascertain the risks of the portfolios.

Sensitivity Analysis

This assesses the impact on a Bank's financial condition of a move in one particular risk factor, identify how portfolios respond to shifts in relevant economic variables or risk parameters. i.e. Banks exposures, activities, and risks when certain variables, parameters, and inputs are 'stressed' or 'shocked.'

Scenario Analysis

Single factor analysis can be supplemented by simple multi-factor sensitivity analyses, where a combined occurrence of some risk drivers is assumed, without necessarily having a scenario in mind. Scenario tests include simultaneous moves in a number of variables based on the following and the assessment of their impact on the Bank's financial position.

- A single event experienced in the past.
- A plausible market event that has not yet happened. The Bank shall determine the various risks that shall be included in a scenario, take into account the linkages among the various risks without looking at each of them.

The Strategies and Processes to Manage Hedge and Mitigate Risks

Possible credit losses from any given event, client or portfolio are mitigated using a range of tools such as collateral, credit insurance, credit derivatives taking into account expected volatility and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the protection provider. The requirement for risk mitigation is not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

The Bank's credit policies detailed out the guidelines of key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements. The Bank has policies and procedures in place setting out the criteria for collateral to be recognised as a credit risk mitigant, including requirements concerning legal certainity, priority, concentration, correlation, liquidity and valuation parameters such as frequency of review and independence.

Types of Collateral

Collateral types that are eligible for risk mitigation include cash, residential, commercial and industrial property, fixed assets such as motor vehicles, plant and machinery, marketable securities, commodities, Bank guarantees and letters of credit. Physical collateral, such as property, fixed assets and commodities and financial collateral must be independently valued and an active secondary resale market must exist. The valuation frequency sets as per the CBSL direction and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure.

For financial collateral to be eligible for recognition, the collateral must be sufficiently liquid, and its value over time sufficiently stable, to provide appropriate certainty as to the credit protection achieved.

Documentation is obtained in favour of the Bank to realise the collateral without the intervention of the obligor in the event that this is necessary. For certain types of lending, typically mortgages or asset financing where a first charge over the risk mitigant must be attained, the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. Physical collateral is required to be insured at all times against risk of physical loss or damage.

Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of liquidation. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios. The Bank also seeks to diversify its collateral holdings across asset classes and markets.

Where guarantees, credit insurance or credit derivatives are used as credit risk mitigation, the creditworthiness of the protection provider is assessed and monitored using the same credit approval process applied to the obligor. The main types of guarantors include Bank guarantees, insurance companies, parent companies, governments and export credit agencies.

Credit Concentration

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

Sector Concentration

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

Strategic Risk

Strategic Risk is the risk arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation.

Reputation Risk

Reputation Risk is the risk arising from negative public opinion. This risk may expose the institution to litigation, financial loss or decline in customer base.

Risk Weighted Assets

Credit Risk

Credit Risk is the potential for loss due to the failure counterparty to meet its obligation to pay the Bank in accordance with agreed terms. It is managed through a framework that setout credit policies and procedures and credit approval authority delegation. Further policies are decided to reflect the country specific risk environment and portfolio characteristics of the Bank.

The Bank computes risk weighted assets on credit exposures using the Standardised Approach Method. In assigning risk weights for calculation of risk weighted assets using the standardised approach under Basel III, the Bank uses credit ratings from External Credit Assessment Institutions (ECAIs) who meet the qualifications specified by the CBSL. The credit ratings from External Credit Assessment institutions are applied to risk weight the claims on Banks, financial institutions and corporate customers. Claims on Retail and SME customers are risk weighted based on the criterion specified in the directions.

Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31st December 2019	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density	
Asset Class	On-Balance Sheet Amount Rs. 000	Off-Balance Sheet Amount Rs. 000	On-Balance Sheet Amount Rs. 000	Off-Balance Sheet Amount Rs. 000	RWA Rs. 000	RWA Density (%) (ii)
Claims on Central Government and Central Bank of Sri Lanka	33,997,579	-	33,935,611	-	3,141,745	9%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Bank's Exposures	639,233	22,970,355	639,233	459,407	936,958	85%
Claims on Financial Institutions	1,990,912	1,101,304	1,923,666	1,200	1,073,664	56%
Claims on Corporates	18,916,526	1,560,702	15,478,512	215,670	14,817,524	94%
Retail Claims	81,182,323	17,979,004	71,641,469	2,509,994	57,465,564	77%
Claims Secured by Gold	3,801,750	-	3,801,750	-	348,139	9%
Claims Secured by Residential Property	4,578,921	-	4,578,921	-	3,128,390	68%
Claims Secured by Commercial Real Est.	-	-	-	-	-	-
Non-Performing Loans (NPLs)(i)	3,712,294	-	3,693,231	-	4,440,522	120%
Higher-risk Categories	6,158	-	6,158	-	9,237	150%
Cash Items and Other Assets	3,964,292	-	3,964,292	-	2,452,351	62%
Total Assets	152,789,988	43,611,366	139,662,843	3,186,272	87,814,094	61%

Notes:

(i) NPLs - As per Banking Act Direction No. 03 of 2008 (as amended subsequently) on classification of Loans and Advances, income recognition and provisioning.

(ii) RWA Density - Total RWA/Exposures post CCF and CRM.

* As per the regulatory directions, commencing from 1st January 2018 onwards all foreign claims on Central Government of Sri Lanka is needed to be risk weigh at 20%. Accordingly, the Bank's investments in Sri Lanka Development Bonds and Sovereign Bonds have been risk weighted at 20% commencing from 01st January 2018.

Apart from above, the growth in balance sheet is also contributed for the increase in risk weighted assets.

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Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights - Post CCF & CRM

As at 31st December 2019	Risk Weight								Total Credit
Asset Class	0%	2%	20%	50%	60%	75%	100%	150%	Exposures
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Claims on Central Government and Central Bank of Sri Lanka	18,226,884	-	15,708,727	-	-	-	-	-	33,935,611
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	459,407	189,490	20,178	-	-	429,564	-	1,098,640
Claims on Financial Institutions	-	-	506,074	892,687	-	-	526,105	-	1,924,866
Claims on Corporates	-	-	60,972	2,067,698	-	-	13,305,975	259,538	15,694,183
Retail Claims	-	-	495,483	258,027	3,659,021	60,889,164	8,849,769	-	74,151,463
Claims Secured by Gold	2,061,053	-	1,740,697	-	-	-	-	-	3,801,750
Claims Secured by Residential Property	-	-	-	2,901,062	-	-	1,677,859	-	4,578,921
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-
Non-Performing Loans (NPLs)	-	-	-	-	-	-	2,198,651	1,494,581	3,693,231
Higher-risk Categories	-	-	-	-	-		-	6,158	6,158
Cash Items and Other Assets	1,475,276	-	45,831	-	-	-	2,443,185	-	3,964,292
Total	21,763,214	459,407	18,747,274	6,139,651	3,659,021	60,889,164	29,431,108	1,760,277	142,849,115

Credit Risk under Standardised Approach Classified by Geographical Area of Debtor - Before CCF CRM

As at 31st December 2019	Outside	Province									Total
Asset Class	Sri Lanka	Central	Eastern	North Central	North Western	Northern	Sabarag-amuwa	Southern	Uva	Western	
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Claims on Central Government and Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-	33,997,579	33,997,579
Claims on Banks Exposures	234,373	-	-	-	-	-	-	-	-	23,375,214	23,609,588
Claims on Financial Institutions	-	79,619	-	-	-	-	1,577	-	-	3,011,021	3,092,217
Claims on Corporates	-	277,182	-	-	234,586	-	-	275,995	-	19,689,466	20,477,228
Retail Claims	-	10,001,069	1,653,760	3,077,516	4,954,260	1,171,036	3,743,871	6,038,995	1,858,976	66,661,843	99,161,327
Claims Secured by Gold	-	443,121	717,932	59,136	437,215	1,006,738	207,592	168,939	45,551	715,527	3,801,750
Claims Secured by Residential Property	-	411,130	34,777	65,290	91,064	86,885	190,486	366,138	38,925	3,294,226	4,578,921
Non-Performing Loans (NPLs)	-	510,276	76,070	139,911	172,651	79,150	149,827	177,734	65,022	2,341,653	3,712,294
Higher-risk Categories	-	-	-	-	-	-	-	-	-	6,158	6,158
Cash Items and Other Assets	-	-	-	-	-	-	-	-	-	3,964,292	3,964,292
Total	234,373	11,722,398	2,482,539	3,341,854	5,889,776	2,343,808	4,293,353	7,027,801	2,008,474	157,056,979	196,401,354

Non Performing Loans Vs Provisions- by Sector/Industry

(As per Regulatory Reporting)

As at 31st December 2019 Industry	NPL Capital Rs. 000	Specific Provision Rs. 000
Agriculture, Forestry & Fishing	938,733	440,739
Arts Entertainment & Recreation	85,068	81
Construction & Infrastructure Development	1,890,751	534,123
Consumption	991,417	611,729
Education	29,460	4,673
Financial Services	478,591	400,032
Health Care, Social Services & Support Services	1,171	390
Information Technology & Communication Services	55,109	29,911
Manufacturing	1,324,576	581,946
Professional, Scientific & Technical Activities	239,720	78,564
Tourism	319,585	95,620
Transportation & Storage	16,836	5,865
Wholesale & Retail Trade	989,900	282,316
Total	7,360,916	3,065,988

Non Performing Loans Vs Provisions- by Geography

(As per Regulatory Reporting)

As at 31st December 2019 Province	NPL Capital Rs. 000	Specific Provision Rs. 000
Central	771,804	133,832
Eastern	105,553	37,335
North Central	207,369	32,125
North Western	304,585	120,833
Northern	105,597	28,538
Sabaragamuwa	228,941	31,262
Southern	378,543	93,026
Uva	90,111	14,176
Western	5,168,412	2,574,862
Total	7,360,916	3,065,988

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Gross Loans & Advances - by Sector/Industry

(As per Regulatory Reporting)

As at 31st December 2019	Performing Loans & Advances Rs. 000	Special Mention (NPLs) Rs. 000	Substandard (NPLs) Rs. 000	Doubtful (NPLs) Rs. 000	Loss (NPLs) Rs. 000	Total NPLs Rs. 000	Total Loans & Advances Rs. 000
Agriculture, Forestry & Fishing	14,126,086	46,520	32,495	427,054	432,664	938,733	15,064,819
Arts, Entertainment & Recreation	165,625	52	-	-	85,016	85,068	250,693
Construction & Infrastructure Development	29,918,306	319,574	484,867	305,136	781,174	1,890,751	31,809,058
Consumption	20,585,053	143,089	170,277	112,684	565,367	991,417	21,576,470
Education	648,205	3,307	6,530	3,906	15,718	29,460	677,666
Financial Services	5,508,040	3,568	3,047	13,483	458,493	478,591	5,986,631
Health Care, Social Services & Support Services	287,697	-	-	338	833	1,171	288,868
Information Technology and Communication Services	333,681	-	-	12,963	42,146	55,109	388,790
Manufacturing	9,851,041	73,197	257,938	173,121	820,320	1,324,576	11,175,616
Professional, Scientific & Technical Activities	6,000,633	82,502	53,889	57,412	45,918	239,720	6,240,353
Tourism	2,849,267	15,186	659	35,064	268,676	319,585	3,168,852
Transportation & Storage	652,441	420	1,176	9,600	5,639	16,836	669,276
Wholesale & Retail Trade	17,232,442	79,523	284,468	125,519	500,390	989,900	18,222,341
Total	108,158,517	766,937	1,295,345	1,276,280	4,022,353	7,360,916	115,519,433

Gross Loans & Advances - by Geography

(As per Regulatory Reporting)

As at 31st December 2019	Performing Loans & Advances Rs. 000	Special Mention (NPLs) Rs. 000	Substandard (NPLs) Rs. 000	Doubtful (NPLs) Rs. 000	Loss (NPLs) Rs. 000	Total NPLs Rs. 000	Total Loans & Advances Rs. 000
Central	10,429,981	64,491	229,394	113,474	364,444	771,804	11,201,785
Eastern	2,281,555	17,550	7,605	28,001	52,397	105,553	2,387,108
North Central	3,104,144	35,063	31,817	88,499	51,991	207,369	3,311,514
North Western	5,487,375	49,381	9,059	24,771	226,596	309,807	5,797,181
Northern	2,151,876	4,211	33,360	9,930	58,097	105,597	2,257,473
Sabaragamuwa	3,871,765	18,993	19,055	102,660	88,233	228,941	4,100,706
Southern	6,452,221	64,601	53,722	18,852	253,929	391,104	6,843,324
Uva	1,882,122	14,975	6,688	12,471	55,978	90,111	1,972,233
Western	72,497,479	497,672	904,646	877,622	2,870,690	5,150,630	77,648,109
Total	108,158,517	766,937	1,295,345	1,276,280	4,022,353	7,360,916	115,519,433

Further Explanation on the Bank approach to manage credit risk can be found in:

- Graphical presentation of exposures subject to credit risk by major types, geographical areas and sectors - page 64 of Bank's Annual Report 2019 (Risk Management).
- Maximum Exposures to Credit Risk by asset class - pages 196 & 197 of Bank's Annual Report 2019.
- Industry Analysis of Financial Assets - pages 200 and 201 of Bank's Annual Report 2019.
- Break down of credit exposures classified by residual maturity - pages 213 to 214 of Bank's Annual Report 2019.
- Breakdown of exposures subject to credit risk in to impaired and non impaired including impairment allowances and the explanation on non impaired and impaired loans - pages 198 to 199 of Bank's Annual Report 2019.

Reconciliation of Regulatory Capital to Financial Statements

As at 31st December 2019	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Assets	152,979,695	153,321,681	152,872,209	168,620	280,852
Cash and Cash Equivalents (Note 01)	1,708,269	1,709,650	1,709,650	-	-
Balances with Central Bank	5,333,200	5,333,200	5,333,200	-	-
Derivative Financial Instruments	443	443	-	443	-
Financial Assets recognised through Profit or Loss	168,177	168,177	-	168,177	-
Loans and Advances - at Amortised Cost (Note 02)	111,187,855	112,602,171	112,602,171	-	-
Debt and Other Instruments - at Amortised Cost (Note 02)	30,080,088	30,206,446	30,206,446		
Financial Assets - FVOCI	6,158	6,158	6,158	-	-
Property, Plant and Equipment	2,333,961	2,333,961	2,333,961	-	-
Right-of-Use Assets (Note 03)	911,837	-	-	-	-
Intangible Assets	280,852	280,852	-	-	280,852
Deferred Tax Asset	-	-	-	-	-
Other Assets (Note 04)	968,855	680,624	680,624	-	-
Liabilities	139,650,907	139,419,193	-	-	-
Due to Banks	521,836	521,836	-	-	-
Derivative Financial Instruments	107	107	-	-	-
Due to Depositors - at Amortised Cost (Note 05)	122,544,024	122,920,324	-	-	-
Due to Debt Securities holders - at Amortised Cost	11,944,843	11,980,830	-	-	-
Senior Debentures	-	-	-	-	-
Current Tax Liabilities (Note 07)	752,287	891,115	-	-	-
Deferred Tax Liabilities (Note 07)	132,780	301,451	-	-	-
Other Provisions and Accruals	187,603	184,083	-	-	-
Other Liabilities (Note 06)	3,567,426	2,619,446	-	-	-
Subordinated Debentures	-	-	-	-	-
Off-Balance Sheet Liabilities					
Guarantees	2,304,704	2,304,704	2,304,704	-	-
Performance Bonds	764,429	764,429	764,429	-	-
Letters of Credit	2,768,703	2,768,703	2,768,703	-	-
Other Contingent Items	26,207,546	26,207,546	26,207,546	-	-
Undrawn Loan Commitments	14,953,648	14,953,648	14,953,648	-	-
Shareholders' Equity					
Stated Capital	3,614,253	3,614,253	-	-	-
of which Amount Eligible for CET1	3,614,253	3,614,253	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings (Note 08)	8,231,159	8,823,920	-	-	-
Other Reserves (Note 08)	1,483,376	1,464,315	-	-	-
Total Shareholders' Equity	13,328,788	13,902,488	-	-	-

Basel III Pillar 3 Disclosures

Reconciliation Notes

Note 01- Cash and Cash Equivalents

The Bank recognises impairment provisions for the balances with foreign banks in accordance with SLFRS 9 - Financial Instruments

As at 31st December 2019	Rs. 000
Cash and Cash Equivalents Value as per Published Financial Statements (SLFRSs)	1,708,269
Cash and Cash Equivalents Value as per Regulatory Reporting	1,709,650
Change in Value	(1,381)

Note 02- Financial Assets at Amortised Cost

(i) Loans and Advances

As at 31st December 2019	Rs. 000
Loans and Advances	
Carrying Value as per Published Financial Statements (SLFRSs)	111,187,855
Carrying Value as per Regulatory Reporting	112,602,171
Change in Value (a) + (b)	(1,414,316)

(a) Loan Loss Provisioning

The Bank recognises impairment provisions for loans and advances in accordance with SLFRS 9 - Financial Instruments, whereas provisions of the Banking Act directions for Classification of Loans and Advances, income recognition and provisioning are used for regulatory reporting purposes.

As at 31st December 2019	Rs. 000
Loan Loss Provisions as per Published Financial Statements (SLFRSs)	(6,315,320)
Corresponding Provisions as per Regulatory Reporting	(5,309,036)
Change in Value	(1,006,285)

(b) Fair Value Adjustment on Staff Loans at Concessionary Rates

SLFRSs require staff loans granted at concessionary rates to be measured at market interest rates to ascertain the fair value. The difference adjusted to the carrying amount of staff loans.

As at 31st December 2019	Rs. 000
Staff Loans as per Published Financial Statements (SLFRSs)	851,593
Staff Loans as per Regulatory Reporting	1,259,624
Change in Value	(408,031)

(ii) Debt and Other Instruments

The Bank recognises impairment provisions for the investments in Debt & other Instruments in accordance with SLFRS 9 - Financial Instruments. In accordance with the Standard, impairment provision has been allocated for the investment in Debentures, Sri Lanka Development Bonds & Sovereign Bonds.

As at 31st December 2019	Rs. 000
Debt and Other Instruments	
Carrying Value as per Published Financial Statements (SLFRSs)	30,080,088
Carrying Value as per Regulatory Reporting	30,206,446
Change in Value	(126,357)

Note 03 - Right-of-Use Assets

Assets held under lease is recognised as Right -of -Use Assets under SLFRS 16.

As at 31st December 2019	Rs. 000
Right-of-Use Assets as per Published Financial Statements (SLFRSs)	911,837
Right-of-Use Assets as per Regulatory Reporting	-
Change in Value	911,837

Note 04 - Other Assets

(a) Fair Value Adjustment on Staff Loans at Concessionary Rates

SLFRSs require staff loans granted at concessionary rates to be measured at fair value, based on the market interest rates prevailed at the time of granting the loan. The difference of Rs. 408.03 million has recognised as a prepaid employee benefit and charged to income statement under 'personnel expenses', while interest income is accrued at the relevant market rates over the period of the loan.

(b) Unamortised Issuance Cost of Debt Securities

The remaining balance Rs. 35.99 million of the unamortised issuance cost of the debt securities has been netted off with the financial liabilities in the Published Financial statements, where as in the regulatory reporting this has been presented under other assets.

(c) Prepaid Rental on Lease Agreements

Rs. 83.81 million prepaid rental value included in the other assets has been re-classified under Right-of-use-Assets as per SLFRS 16.

As at 31st December 2019	Rs. 000
Other Assets as per Published Financial Statements (SLFRSs)	968,855
Other Assets as per Regulatory Reporting	680,624
Change in Value (a) + (b) + (c)	288,231

Note 05 -Financial Liabilities at Amortised Cost

Due to Depositors

The Bank accrues interest expenses on longer maturity deposits at effective interest rates in the published financial statements whereas interest accrual in regulatory financial statements takes place on straight line basis.

As at 31st December 2019	Rs. 000
Due to Depositors as per Published Financial Statements (SLFRSs)	122,544,024
Due to Depositors as per Regulatory Reporting	122,920,324
Change in Value	(376,300)

Note 06 -Other Liabilities

(a) Expected Credit Loss Adjustment on Financial Guarantees & Documentary Credit

Expected Credit Loss (ECL) adjustment on financial guarantees & documentary credit, issuing fee & commission income elimination adjustments of Rs. 25.87 million relating to remaining contract periods on financial guarantees and documentary is included in the other liabilities reported in published financial statements.

(b) Taxes and Levies on Financial Services

Additional financial services tax and levy liabilities of Rs. 84.906 million has created due to change in operating profits.

(c) Impairment on Financial Guarantees & Documentary Credit

The Bank recognises impairment provisions for the financial guarantees & documentary credit in accordance with SLFRS 9 - Financial Instruments. Impairment provision of Rs. 13.03 million allocated for Guarantees and LCs is included in the other liabilities.

(d) Lease Liabilities

Rs. 824.18 million has recognised under other liabilities as the Corresponding liability for the Right- of- Use asset

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As at 31st December 2019	Rs. 000
Other Liabilities as per Published Financial Statements (SLFRSs)	3,567,426
Other Liabilities as per Regulatory Reporting	2,619,446
Change in Value (a) + (b) + (c) + (d)	947,980

Note 07 -Current and Deferred Tax Liabilities

Current tax & Deferred tax liabilities have been re-stated with the above adjustments done in the published financial statements.

Note 08 - Shareholders Equity

Share holder funds have been re-stated with the above adjustments done in the published financial statements.

Valuation Methodologies

A marked to market (MTM) valuation is performed mainly on assets prone for volatility. This applies mainly to the Held for Trading (HFT) portfolio since it is the portfolio most prone to market volatility & the same is maintained to benefit from market volatilities.

One such asset class is the Treasury bill and Treasury bond portfolio. Since these are government issued instruments that are risk free and have a very active secondary market. These instruments have two valuation methodologies which are Effective Interest Rate (EIR) method and straight line. However as regulated by the Central Bank of Sri Lanka, banks are allowed only to report to the regulator using the EIR method & the same is adopted by the Bank for the calculation of the MTM. MTM of the portfolios are performed on a daily basis by Treasury Middle Office (TMO) and for the same the rates are obtained from Public Debt Department of Central Bank of Sri Lanka. As prudent measures, the Bank has enforced internal limits on stop losses.

Another asset class that MTM is performed is the equity trading portfolio of the Bank. The Bank do not trade heavily in the equity portfolio since the capital loss of the investment is of great concern to the Bank. Therefore the equity valuations are performed on a monthly basis using the prices as appearing in the monthly publications of the Colombo Stock Exchange (CSE).

The trading unit trust portfolios valuation is similar to the equity calculation methodology and the frequency of valuation. However since most of the unit trust instruments are not traded in an exchange, the net asset value or the market value is obtained through the relevant unit trust fund manager.

The foreign exchange position which should be within the limit as dictated by the regulator is valued in terms of Sri Lankan rupees on a daily basis by using exchange rates prevailing at the end of the day. Spot revaluation rates are mainly obtained from brokers.

Independent price verifications are done from different entities mainly from brokers. For forex spot rates, the Treasury Middle Office contacts a minimum of three brokers and averages are used. For cross currency transactions, Bloomberg rates are used twice a day. Treasury Bills and Treasury Bonds rates are obtained from Public Debt Department published information and a random sanity check is performed against broker rates.

Market Risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. It is managed under the market risk policies and processes to obtain the best balances of risk and return whilst meeting customer requirements.

The market risk subject to the capital charge requirements are:

- The Risk pertaining to Interest rate related instruments in the trading portfolios
- The Risk pertaining to the equities in the trading portfolios
- The Risk pertaining to the foreign exchange position.

The Bank follows the 'Standardised Measurement Method' for computing the capital charge for exposures capture under market risk.

Below table shows the RWA for market risk under Standardised Approach method:

Market Risk under Standardised Measurement Method

As at 31st December 2019	RWA Amount Rs. 000
(a) RWA for Interest Rate Risk	2,423
General Interest Rate Risk	2,423
(i) Net Long or Short Position	2,423
(ii) Horizontal Disallowance	-
(iii) Vertical Disallowance	-
(iv) Options	-
Specific Interest Rate Risk	-
(b) RWA for Equity	-
(i) General Equity Risk	-
(ii) Specific Equity Risk	-
(c) RWA for Foreign Exchange & Gold	2,294
Risk Weighted Amount for Market Risk ((a+b+c) * Reciprocal of Total Capital Ratio)	37,736

Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustments/movements within a specified period. The Bank's lending, funding and investment activities give rise to interest rate risk. The Bank prepares Sensitivity of Assets & Liabilities (SAL) gap analysis report by contractual and behavioural maturities as broken by tenures up to 1 month, 1 - 3 months, 3 - 6 months, 6 - 12 months, 1 - 3 years, 3 - 5 years and over 5 years that covers both on and off-balance sheet interest rate sensitive assets and liabilities by currency-wise (according to CBSL guidelines) on a monthly basis.

Further Explanation on Bank approach to manage interest rate risk can be found in Pages 208 to 209 of Annual Report 2019- Interest Rate Sensitivity analysis of the Assets & Liabilities.

Equity Position Risk

Equity Price Risk is the risk to earnings or capital that results from adverse changes in the value of equity related portfolios of a financial institution.

Investment in equities is always classified under 'Trading' portfolio and is marked to market on a monthly basis. The net MTM adjustment (decline or appreciation of market value) of the portfolio is to be taken to the Profit and Loss account (reflected in earnings).

Foreign Exchange Risk

The Bank faces foreign exchange risk due to impact on foreign currency inflow and outflow on daily basis. However, currency risk that can be carried through overnight is contained by the regulator through Net Open Position (NOP) limit. With the developments in emerging markets and increasing demand for US Dollar from importers, the Sri Lankan Rupee is further set to depreciate in the long term. The Bank generally manages this risk by using a derivative type called 'currency swaps'.

Further Explanation on Bank approach to manage Foreign Exchange risk can be found in Page 210 of Annual Report 2019 – Foreign Currency Risk.

Liquidity Risk

The ability for a Bank to meet its short term liability requirements primarily to honor the premature upliftments and general maturities is defined as the liquidity risk. The Statutory Liquidity Asset Ratio & Liquidity Coverage Ratio are the primary ratio gauges as imposed by the regulator in to the liquidity position of the Bank while other ratios such as the liquid assets to short term liabilities, commitments to liquid assets can be used to monitor the same.

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Trends in Key Indicators

	2019	2018
Net Loans to Total Assets	72.68%	70.23%
Loans to Customer Deposits	99.19%	98.08%
Liquid Assets to Short-term Liabilities (Times)	10.16	7.04
Commitments to Liquid Assets	54.18%	54.41%

Another main measurement tool available for monitoring the liquidity of the Bank is the maturity gaps of assets and liabilities (MAL) which is prepared based on contractual and behavioral maturities bucket which are defined for up to 1 month, 1 - 3 months, 3 - 6 months, 6 - 12 months, 1 - 3 years, 3 - 5 years and over 5 years which covers both on and off-balance sheet assets and liabilities.

Further Explanation on Bank approach to manage liquidity risk can be found Pages 204 to 206 of Annual Report 2019 - Contractual maturities of on & off balance sheet assets & liabilities.

Liquidity Risk Mitigation Techniques

Bank has a contingency funding plan inter alia the roles and responsibilities of senior management in a crisis situation, triggers for invoking the plan, communications and organisation, an analysis of a realistic range of market-wide and specific liquidity stress tests to the extent to which each stress test can be mitigated by managing the balance sheet.

This is detailed in Bank's Treasury Procedure Manual. In addition, Bank has entered in to a reciprocal contingency funding arrangement with another licensed commercial bank for an amount of Rs.1.5 billion.

Assessing the structure of the Balance Sheet

The main measurement tool the Bank uses to assess the structure of the balance sheet is Ratio Analysis. Comprehensive list of ratios according to the focus areas are as follows,

Growth Ratios:
Average Customer Assets growth, Average Liabilities growth, Average Low Cost Customer Deposit Growth

Other Ratios:
Loans to Deposit Ratio, Earning Assets/Total Assets, NPL Ratio-Gross and Net NPL Ratio, Net Loans to Total Assets etc.

Concentration limits, sources of Funding & Liquidity Exposures

The Bank on a monthly basis uses top 20 deposit holders concentration which is discussed at ALCO.

In order to manage the concentration risk, the Bank has implemented various limits and restrictions on its funding portfolio. One such limitation is on the borrowing from the money market and currency wise (mainly USD & Sri Lankan Rupee) Board approved limits are in place and are reviewed in minimum annually and ensure the concentration risk arising from the same is mitigated according to the risk appetite of the Bank.

By analysing the past trends, it has been deduced that the Bank relies mainly on the time deposits in order to fund the business growth as evident in the below table where the product wise concentration of the liability portfolio is listed.

Product wise concentration of the Bank's Deposit portfolio as at 31st December 2019;

Deposit Product	Mix
Demand Deposits	4%
Savings Deposits	14%
Time Deposits	79%
Certificate of Deposits	3%
Margin Deposits	0%
	100%

The Top 20 deposit holder of the Bank has a share of 15.52% out of the total deposit base of the Bank as at the year end.

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) ensures Banks maintaining sufficient unencumbered High Quality Liquid Assets (HQLA) to survive a significant liquidity stress scenario over 30 days horizon. The Central Bank of Sri Lanka issued Banking Act Direction No. 01 of 2015 on "Liquidity Coverage Ratio under Basel III Liquidity Standards for Licensed Commercial Banks" on 31st March 2015.

Commencing from 1st April 2015, the Bank has to maintain LCR Ratio for all currencies and for rupee as stipulated in the direction. The ratio which initially starts from 60% minimum requirement has increased up to 100% on a staggered basis by 1st January 2019.

Liquid assets are distributed across the Bank to support regulatory and internal requirements and are consistent with the distribution of liquidity needs by currency. The composition of the high quality liquid asset portfolio has remained relatively stable over the reporting period and the previous period. The Bank has to maintain 100% as LCR for year 2019 for both Rupee and all currencies.

LCR Disclosure template

The Bank monitors its LCR position on a daily basis, ensuring a sufficient buffer is maintained over the minimum regulatory requirement and the Bank's risk appetite. The Bank holds a diverse mix of High Quality Liquid Assets (HQLA), consisting primarily of cash, excess balances held with Central Bank above Statutory Reserve, Government of Sri Lanka securities (Level 1 Liquid Assets). In addition, the Bank maintains level 2 Liquid Assets such as gilt edge investments.

As at 31st December (All Currency)	2019		2018	
	Total Un-weighted Value Rs. 000	Total Weighted Value Rs. 000	Total Un-weighted Value Rs. 000	Total Weighted Value Rs. 000
Total Stock of High-Quality Liquid Assets (HQLA)	17,884,343	16,686,658	19,562,913	19,235,760
Total Adjusted Level 1 Assets	11,903,112	11,903,112	18,878,000	18,878,000
Level 1 Assets	11,848,613	11,848,613	18,893,304	18,893,304
Total Adjusted Level 2A Assets	5,278,368	4,486,613	-	-
Level 2A Assets	5,278,368	4,486,613	-	-
Total Adjusted Level 2B Assets	702,863	351,431	684,913	342,456
Level 2B Assets	702,863	351,431	684,913	342,456
Total Cash Outflows	137,992,204	14,377,161	136,831,514	18,084,245
Deposits	107,773,714	9,349,618	97,383,964	8,243,853
Unsecured Wholesale Funding	9,427,007	4,866,510	18,516,396	9,548,582
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	20,791,483	161,033	20,700,844	61,499
Additional Requirements	-	-	230,310	230,310
Total Cash Inflows	8,494,655	4,265,565	8,436,022	3,994,423
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	8,242,674	4,247,958	7,615,787	3,994,423
Operational Deposits	234,373	-	820,235	-
Other Cash Inflows	17,607	17,607	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total net Cash Outflows over the Next 30 Calendar Days) *100		165.02%		136.52%

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Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on-going basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the Net Stable Funding Ratio, which extends to one year.

The Central Bank has issued Direction No. 08 of 2018 on "Net Stable Funding Ratio under Basel III liquidity Standards for Licensed Commercial Banks and Licensed Specialised Banks" on 21st November 2018. As per the directions, the NSFR requirement will be staggered and came to full effect from 1st July 2019.

Effective Date	01.01.2019	01.07.2019
Minimum Requirement	90%	100%

Available Stable Funding

Available Stable Funding (ASF) is defined as the portion of capital and liabilities expected to be reliable over the time horizon of one year. ASF factors such as 100%, 90%, 50% & 0% assigned according to presumed degree of stability of funding.

Required Stable Funding

Required Stable Funding (RSF) is a function of liquidity characteristics and residual maturities of various assets held and those of its off-balance sheet (OBS) exposures. RSF factors such as 0%, 5%, 10%, 15%, 50%, 65%, 85% and 100% are assigned to different asset categories accordingly.

As at 31st December	2019 Rs. 000	2018 Rs. 000
Total Available Stable Funding	126,550,987	N/A
Required Stable Funding – On Balance Sheet Assets	98,532,948	N/A
Required Stable Funding – Off Balance Sheet Items	149,721	N/A
Total Required Stable Funding	98,682,668	N/A
NSFR	128.24%	N/A

Operational Risk

Operational risk is the potential for loss arising from the failure of people, processes or technology or the impact of external events. Operational risk exposures are managed through a set of processes that drive risk identification, assessment, control and monitoring. The senior management team under the guidance of the Board is responsible for overseeing potential risk across the Bank.

The Bank computes capital charges for operational risk based on the Basic Indicator Approach (BIA). When compared to other approaches, BIA is not an advanced approach. Therefore, the Bank is in the process of collecting information to move to 'The Standardised Approach (TSA)' with the prior approval of CBSL.

Capital Requirement under BIA is given below;

Operational Risk under Basic Indicator Approach

As at 31st December 2019 Business Lines	Capital Charge Factor	Fixed Factor	Gross Income 1st Year Rs. 000	Gross Income 2nd Year Rs. 000	Gross Income 3rd Year Rs. 000
The Basic Indicator Approach	15%	-	9,065,086	8,924,518	6,678,599
The Standardised Approach					
Corporate Finance	18%	-	-	-	-
Trading and Sales	18%	-	-	-	-
Payment and Settlement	18%	-	-	-	-
Agency Services	15%	-	-	-	-
Asset Management	12%	-	-	-	-
Retail Brokerage	12%	-	-	-	-
Retail Banking	12%	-	-	-	-
Commercial Banking	15%	-	-	-	-
The Alternative Standardised Approach					
Corporate Finance	18%	-	-	-	-
Trading and Sales	18%	-	-	-	-
Payment and Settlement	18%	-	-	-	-
Agency Services	15%	-	-	-	-
Asset Management	12%	-	-	-	-
Retail Brokerage	12%	-	-	-	-
Retail Banking	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-
Capital Charges for Operational Risk					
The Basic Indicator Approach					1,233,410
Risk Weighted Amount for Operational Risk					
The Basic Indicator Approach					9,867,281

Operational Risk Mitigation Techniques

The Bank's senior management team under delegation from the Board is responsible for overseeing operational risks across the Bank. The Bank has a process in place to record operational risk related loss incidents. Reporting, investigating and required remedial actions on the incidents are recommended by Manager - Operational Risk and Control Self Assessments along with Key risk Indicators have been developed for all critical business units to trigger periodic control self assessments as required and to capture results to monitor exceptions. The Bank has established mechanisms in controlling, preventing, and mitigating operational risks through an effective internal control system with strong participation of each business unit heads.

Each business unit must enforce operational controls vigorously, ensuring compliance with regulations including anti-money laundering measures. Implementing segregation of duties and procedures for verification and reconciliation, define approval authorities as well as establishing limits commensurate with the scale of the business, the business type and level of staff, are also been looked after by them. The reliability of the information technology systems and the security measures related thereto is also of paramount importance.

The Bank has implemented Business Continuity Management to enhance the resilience and the capability of responding to unexpected interruptions. The Bank has Business Continuity Management Policy and Business Continuity Plans, which are regularly reviewed and updated in accordance with potential threats and being tested on a regular basis. Disaster Management Team (DMT) which comprise with members of all critical business operations is overlooking to ensure the readiness of the Bank's Disaster Recovery site and the related testing.

As a part of the risk management approach the Bank uses insurance as a 'risk transferring strategy' for low probability and high severity impact events that are beyond the control of the Bank such as damage to physical assets by natural disasters, fire etc. The Bank has also transferred such Risk by obtaining necessary insurance policies from leading insurance providers covering burglary, transits, forged cheques and securities, counterfeit currencies, infidelity and negligence of employees etc. The adequacy of the insurance covers are reviewed and monitored by relevant departments in the Bank on an ongoing basis.

Major operational, system or human failures and financial losses incurred by the Bank due to such failures during the reporting period

During the reporting period there were no significant losses reported due to failures or inadequacies in Internal Processes, People, and System or from External events.

Further details on Bank's approach to manage operational risk can be found on pages 210 to 212 of the Annual Report 2019 - Risk Management Report.

Details of Outsourced Activities

The Bank outsources certain service activities related to the financial services and core banking activities. With the outsourcing, the Bank would be in a better position to meet the challenges of rapid changes and innovations in technology, increasing specialisation in the market, cost control of operations by minimising costs of directly handling such activities, and effectively compete in the market. The outsourcing activities are governed by the laws applicable to the Banking industry and directions issued by the regulator. Further, the Bank has a well defined policy aligned with regulatory guidelines and procedures relating to outsourcing of business activities of the Bank ensuring that all significant risks arising from outsourcing arrangements of the Bank are identified and effectively managed on a continuous basis. The Outsourcing Policy is reviewed on an annual basis with the approval of the Board of Directors.

An Outsourced Activities Monitoring Unit has been established to closely monitor all the outsourcing arrangements in the Bank.

List of Outsourced Activities outsourced are as follows;

Deliverables/Services	Basis of the Payment
Cards Personalisation	Per Card
Credit Card Mandate Scanning	Per Document
World Master Card Personalisation	Per Card
Statement printing and dispatching	Per Statement
Debt collection , Skip tracing, Asset verification	Based on the output volumes
Mandates relating to accounts opening to be scanned	Per document
All cash sorting and transport	Cash Transport - Per agreed rate according to the distance Cash Counting - Per bundle
Cheque book printing	Per Cheque leaf
Archival of Documents	Per Carton
Computer Hardware and equipment	Monthly rental
Maintenance of Bank Disaster Recovery Site	Monthly Rental
Hiring IT Operators	Monthly Fee
Processing Salaries	Monthly Fee
Promotional Activities	Per Activity
Recruitment and Processing payments for outsourced staff	Percentage on Total Salary Cost
Initial screening of applications for credit card and personal loans	Per Application
Card Management System	Per Card

Details of the due diligence test of third party service providers

Due diligence tests of outsourced vendors are carried out by respective Risk Owners prior to executing new agreements and renewal of existing agreements. Assistance of Information Security Officer and Information Systems Audit Unit is obtained when conducting due diligence tests of outsourced parties which provide IT services.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB arises due to floating and fixed rate sensitive assets & liabilities in the balance sheet of the Bank. It is different to credit risk and relates to the impact interest rates change may have on the value of the loans and deposits and by extension, the overall earnings of the Bank. IRRBB arises due to the differences in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL), which will have an impact on the future income and expenses produced by relevant gap positions and an impact on Banks Net Interest Income compared to the level of Net Interest Income expected from current interest rates level. Re-pricing gap analysis would determine the appropriate strategies to manage the assets- liability rate mismatch.

Further Explanation on Bank approach to manage interest rate risk can be found in pages 208 to 209 of Annual Report 2019- Interest Rate Sensitivity analysis of the Assets & Liabilities.

FINANCIAL AND INVESTOR INFORMATION

Quarterly Statistics

	2019				2018			
	31st December Rs. 000	30th September Rs. 000	30th June Rs. 000	31st March Rs. 000	31st December Rs. 000	30th September Rs. 000	30th June Rs. 000	31st March Rs. 000
Extract of Statement of Financial Position								
Total Assets	152,979,695	152,048,645	150,296,750	152,024,891	154,026,283	156,377,825	150,174,847	146,661,678
Loans and Advances	111,187,855	107,096,202	104,202,742	104,331,537	108,168,861	111,231,926	108,177,520	104,888,718
Due to Depositors	122,544,024	117,448,113	117,782,582	114,416,189	118,627,349	116,278,018	114,241,574	112,541,291
Debentures	-	3,215,114	5,906,928	5,811,795	5,809,186	5,900,746	7,238,619	7,114,489
Shareholders' Funds	13,328,789	12,270,366	12,000,392	11,518,835	11,246,644	11,750,128	11,489,457	10,982,700
Extract of Statement of Comprehensive Income								
Net Interest Income	1,976,010	1,688,737	1,416,369	1,553,471	1,805,936	1,891,466	1,484,764	1,336,129
Other Income	644,389	600,633	647,914	537,561	549,965	644,121	565,321	648,922
Total Operating Income	2,620,399	2,289,370	2,064,283	2,091,032	2,355,901	2,535,587	2,050,085	1,985,051
Impairment Losses	17,969	(335,640)	(457,786)	(361,385)	(485,447)	(862,850)	(348,612)	(320,238)
Non-Interest Expenses	(1,588,730)	(1,440,248)	(1,282,476)	(1,302,652)	(1,285,649)	(1,251,153)	(1,296,183)	(1,166,835)
Income Tax Expense	(322,794)	(243,509)	157,537	(154,804)	(123,405)	(160,911)	101,466	(185,164)
Profit for the Quarter	726,844	269,973	481,558	272,191	461,400	260,673	506,756	312,814
Profitability(YTD) Ratios								
Net Interest Margin (%)	4.36	4.06	3.94	4.12	4.37	4.01	3.92	3.80
Earnings Per Share (Rs.)	3.96	2.31	1.70	2.49	3.48	3.26	3.73	2.87
Return on Equity (%)	14.50	11.60	13.12	9.70	13.73	12.87	14.96	11.72
Return on Assets (%)	1.15	0.89	1.00	0.72	1.03	0.98	1.14	0.89
Capital Adequacy Ratios*								
Common Equity Tier I Capital Ratio (%)	12.87	12.25	12.67	11.73	11.51	10.65	11.20	10.66
Total Tier I Capital Ratio (%)	12.87	12.25	12.67	11.73	11.51	10.65	11.20	10.66
Total Capital Ratio (%)	14.31	13.68	14.28	13.37	13.32	12.11	12.87	12.53
Asset Quality Ratios								
Gross NPL (%)	6.31	6.56	6.48	5.85	5.44	4.83	4.51	4.40
Net NPL (%)	2.82	3.18	3.44	3.13	3.08	3.14	2.93	2.89
Liquidity Ratios								
Statutory Liquid Assets Ratio (SLAR)								
Domestic Banking Unit (%)	24.93	33.91	33.73	32.58	29.17	25.95	24.68	23.25
Foreign Currency Banking Unit (%)	23.61	22.15	20.43	20.99	20.09	20.81	20.60	23.44
Liquidity Coverage Ratio (LCR)								
Rupee (%)	128.84	131.83	205.55	172.54	166.08	141.06	168.98	159.04
All Currency (%)	165.02	132.07	222.64	164.33	136.52	122.14	150.67	139.54

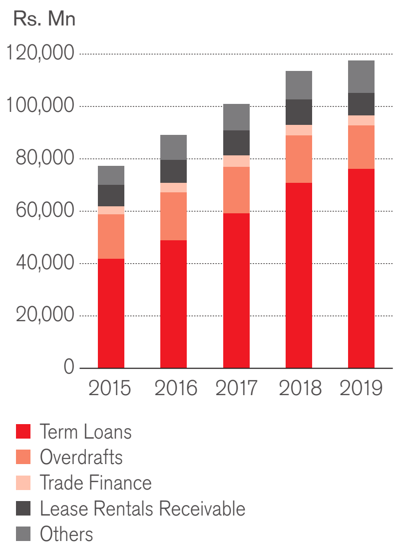
Note: Financial data of previous years have been re-classified /re-stated to conform with SLFRS 9 requirements.

Analysis of Loans & Advances

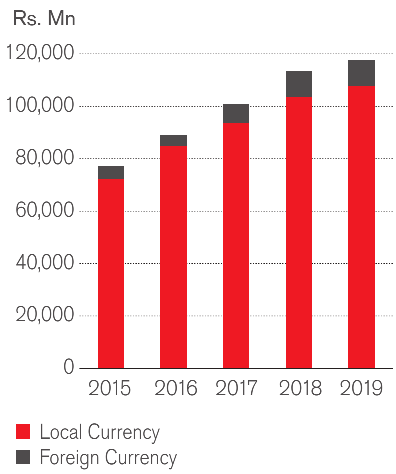
	2019 Rs. 000	2018 Rs. 000	2017 Rs. 000	2016 Rs. 000	2015 Rs. 000
By Product					
Term Loans	76,045,575	70,870,588	59,136,152	48,822,782	41,764,064
Overdrafts	16,787,688	17,936,818	17,703,444	18,446,880	17,101,701
Trade Finance	3,664,711	4,036,976	4,546,528	3,462,955	2,911,459
Lease Rentals Receivable	8,627,202	9,804,133	9,449,637	8,792,506	8,320,679
Others	12,378,000	10,845,909	10,119,619	9,649,053	7,182,426
Total	117,503,176	113,494,424	100,955,380	89,174,176	77,280,329
By Currency					
Sri Lankan Rupee	107,565,116	103,345,693	93,485,484	84,633,541	72,331,247
United States Dollar	3,904,780	3,917,082	3,424,961	2,727,977	3,431,029
Others	6,033,280	6,231,649	4,044,935	1,812,658	1,518,053
Total	117,503,176	113,494,424	100,955,380	89,174,176	77,280,329

Note: Financial data of previous years have been re-classified/re-stated to conform with SLFRS 9 requirements.

BY PRODUCT



BY CURRENCY



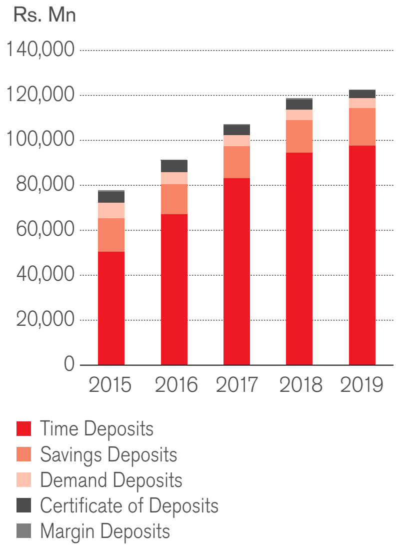
FINANCIAL AND INVESTOR INFORMATION

Analysis of Due to Depositors

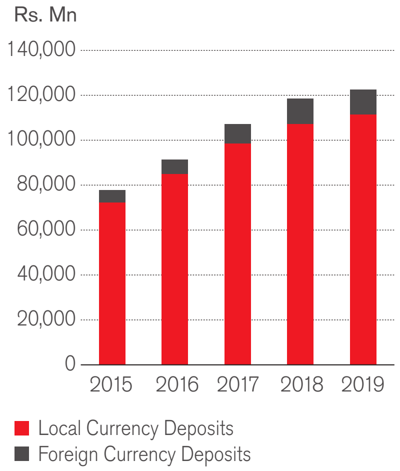
	2019 Rs. 000	2018 Rs. 000	2017 Rs. 000	2016 Rs. 000	2015 Rs. 000
By Product					
Demand Deposits	4,375,636	4,871,475	4,815,485	5,141,991	6,881,532
Savings Deposits	16,910,775	14,404,715	14,159,616	13,452,803	14,880,794
Time Deposits	97,528,927	94,475,049	83,200,483	67,047,837	50,480,498
Certificate of Deposits	3,521,230	4,359,723	4,603,819	5,488,402	4,887,367
Margin Deposits	207,456	516,387	413,627	325,377	566,864
Total	122,544,024	118,627,349	107,193,030	91,456,410	77,697,055
By Currency					
Sri Lankan Rupee	111,342,539	107,090,457	98,574,959	84,851,489	72,192,571
United States Dollar	8,940,128	9,369,827	6,730,046	5,191,710	4,528,541
Others	2,261,357	2,167,065	1,888,025	1,413,211	975,943
Total	122,544,024	118,627,349	107,193,030	91,456,410	77,697,055

Note: Financial data of previous years have been re-classified/re-stated to conform with SLFRS 9 requirements.

BY PRODUCT



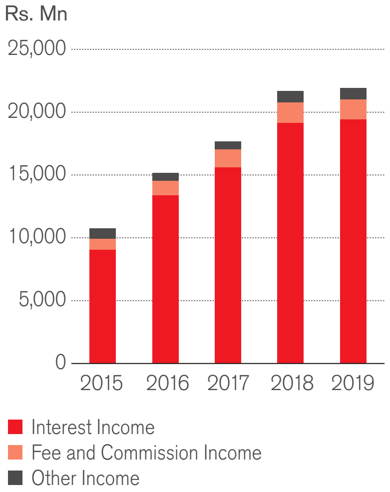
BY CURRENCY



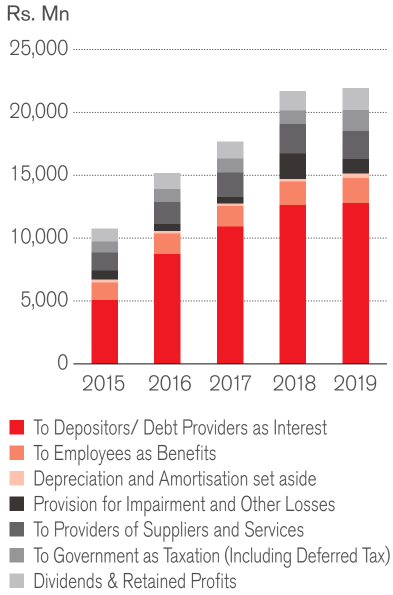
Sources & Distribution of Income

	2019 Rs. 000	2018 Rs. 000	2017 Rs. 000	2016 Rs. 000	2015 Rs. 000
Sources of Income					
Interest Income	19,416,606	19,157,136	15,616,014	13,366,543	9,038,971
Fee and Commission Income (net)	1,605,877	1,626,410	1,408,276	1,175,173	863,025
Other Income	885,179	888,648	660,382	603,026	857,142
Total	21,907,662	21,672,194	17,684,672	15,144,742	10,759,138
Distribution of Income					
To Depositors and Debt Providers as Interest	12,782,017	12,638,841	10,909,740	8,733,164	5,076,382
To Employees as Benefits	1,973,310	1,863,074	1,624,035	1,613,604	1,389,142
Depreciation and Amortisation set aside	387,704	193,811	213,491	225,283	222,135
Provision for Impairment Losses	1,136,843	2,017,147	494,386	528,108	750,525
To Providers of Suppliers and Services	2,207,426	2,343,093	1,977,041	1,753,738	1,416,953
To Government as Taxation	1,669,793	1,074,585	1,075,477	1,039,140	863,483
Income Tax (Including Deferred Tax)	563,570	368,014	484,954	543,231	491,102
VAT, NBT and DRL on Financial Services	1,088,540	690,999	576,478	483,265	361,871
Crop Insurance Levy	17,683	15,572	14,045	12,644	10,510
To Shareholders as Dividends and Retained Profits	1,750,569	1,541,643	1,390,502	1,251,705	1,040,518
Total	21,907,662	21,672,194	17,684,672	15,144,742	10,759,138

SOURCES OF INCOME



DISTRIBUTION OF INCOME

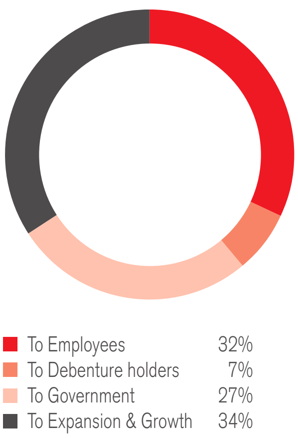


FINANCIAL AND INVESTOR INFORMATION

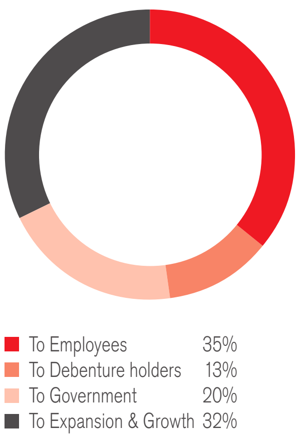
Value Added Statement

	2019		2018	
	Rs. 000	%	Rs. 000	%
Value Added				
Income from Banking Services	21,907,662		21,672,194	
Cost of Funds and Services	(14,534,580)		(14,313,676)	
Value Added by Banking Services	7,373,082		7,358,518	
Impairment Losses	(1,136,843)		(2,017,147)	
Total	6,236,239		5,341,371	
Distribution of Value Added				
To Employees				
Salaries and Other Benefits	1,973,310	32%	1,863,074	35%
To Debenture holders				
Interest to Debenture holders	454,863	7%	668,258	13%
To Government				
Income Tax (Including Deferred Tax)	563,570		368,014	
Taxes and Levies on Financial Services	1,088,540		690,999	
Crop Insurance levy	17,683		15,572	
	1,669,793	27%	1,074,585	20%
To Expansion and Growth				
Retained Profits	1,750,569		1,541,643	
Depreciation and Amortisation	387,704		193,811	
	2,138,273	34%	1,735,454	32%
Total	6,236,239	100%	5,341,371	100%

DISTRIBUTION OF VALUE ADDED - 2019



DISTRIBUTION OF VALUE ADDED - 2018



Decade at a Glance

Rs. Mn

For the Year ended 31st December	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Operating Results										
Gross Income	3,484.41	5,278.21	7,766.22	9,054.03	8,843.95	10,759.14	15,144.75	17,684.67	21,672.19	21,907.66
Interest Income	3,027.66	4,582.66	6,766.83	7,976.95	7,541.72	9,038.97	13,366.55	15,616.01	19,157.13	19,416.61
Interest Expense	1,402.26	2,268.62	4,360.68	5,881.65	4,801.74	5,076.38	8,733.16	10,909.74	12,638.84	12,782.02
Net Interest Income	1,625.40	2,314.04	2,406.15	2,095.30	2,739.98	3,962.59	4,633.39	4,706.27	6,518.29	6,634.59
Other Income	456.75	695.55	999.39	1,077.08	1,302.23	1,720.17	1,778.20	2,068.66	2,515.06	2,491.06
Operating Expenses	1,113.49	1,540.61	2,002.94	2,201.84	2,477.07	3,038.74	3,605.27	3,828.61	4,415.55	4,586.12
Impairment Charges	34.39	121.92	47.88	743.26	814.85	750.53	528.11	494.39	2,017.15	1,136.84
Taxes and Levies on Financial Services	240.34	193.09	209.31	104.53	216.08	361.87	483.27	576.48	691.00	1,088.54
Profit before Income Tax	693.93	1,153.97	1,145.41	122.75	534.21	1,531.62	1,794.94	1,875.45	1,909.65	2,314.14
Income tax	332.14	342.20	285.36	8.91	119.00	491.10	543.23	484.95	368.01	563.57
Profit for the Year	361.79	811.77	860.05	113.84	415.21	1,040.52	1,251.71	1,390.50	1,541.64	1,750.57
As at 31st December										
Assets										
Cash and Cash Equivalents	1,110.07	2,430.15	1,203.05	1,203.74	1,334.41	1,393.27	1,703.45	1,665.04	2,214.11	1,708.27
Balances with Central Bank of Sri Lanka	1,060.32	2,250.43	3,516.87	2,799.58	3,247.64	4,166.74	6,218.56	6,884.02	6,481.99	5,333.20
Placements with Banks	-	-	500.13	104.62	-	-	75.10	237.37	-	-
Derivative Financial Instruments	1.14	1.51	0.05	2.76	5.21	1.54	26.28	16.09	0.21	0.44
Financial Assets - Measured at Fair Value	3,432.63	190.98	12.38	9,170.42	1,414.70	14.71	629.74	4,549.19	11.63	168.18
Loans and Advances	20,677.56	33,898.00	42,031.80	41,561.53	52,974.81	75,143.20	86,498.15	98,743.82	108,168.86	111,187.86
Debt and Other Instruments	3,324.94	5,982.27	6,077.62	6,028.64	17,532.44	24,654.44	31,843.17	23,336.40	34,074.56	30,080.09
Financial Assets - FVOCI	2.14	2.14	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16
Property, Plant and Equipment	614.65	1,026.34	1,224.24	1,204.30	1,458.55	1,470.35	1,489.39	1,989.97	1,934.57	2,333.96
Right-of-Use Assets	-	-	-	-	-	-	-	-	-	911.84
Intangible Assets	48.67	52.15	73.58	65.80	50.61	329.13	315.70	284.39	305.08	280.85
Deferred Tax Assets	-	-	-	-	-	-	-	-	4.93	-
Other Assets	969.62	1,164.92	1,428.41	2,770.90	1,580.74	603.43	645.38	789.24	824.18	968.85
Total Assets	31,241.74	46,998.89	56,074.29	64,918.45	79,605.27	107,782.97	129,451.08	138,501.69	154,026.28	152,979.70
Liabilities										
Due to Banks & Debt Securities Issued	4,470.46	4,916.09	1,121.65	4,743.51	4,294.47	14,612.56	21,001.34	10,963.69	15,039.81	12,466.68
Derivative Financial Instruments	3.23	1.26	0.63	24.63	-	2.14	-	7.37	0.11	0.11
Due to Depositors	21,951.82	36,353.39	47,911.09	53,835.90	64,895.23	77,697.05	91,456.41	107,193.03	118,627.35	122,544.02
Current Tax Liabilities	262.37	227.90	151.31	-	-	114.94	411.03	550.34	785.74	752.29
Deferred Tax Liabilities	83.49	121.69	177.13	150.79	281.98	391.74	445.77	630.73	-	132.78
Other Liabilities and Provisions	1,552.03	1,697.87	1,694.06	1,330.16	1,564.01	1,276.69	1,314.21	1,339.59	2,517.44	3,755.03
Debentures	50.00	-	785.83	784.69	3,834.95	7,914.58	7,950.17	7,147.05	5,809.19	-
Total Liabilities	28,373.40	43,318.20	51,841.70	60,869.68	74,870.64	102,009.70	122,578.93	127,831.80	142,779.64	139,650.91
Shareholders' Funds										
Stated Capital	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97	3,614.25	3,614.25	3,614.25
Reserves	1,319.37	2,131.72	2,683.62	2,499.80	3,185.66	4,224.30	5,323.18	7,055.64	7,632.39	9,714.54
Total Shareholders' Funds	2,868.34	3,680.69	4,232.59	4,048.77	4,734.63	5,773.27	6,872.15	10,669.89	11,246.64	13,328.79
Total Liabilities and Shareholders' Funds	31,241.74	46,998.89	56,074.29	64,918.45	79,605.27	107,782.97	129,451.08	138,501.69	154,026.28	152,979.70
Commitments and Contingencies	10,887.66	15,331.43	13,743.92	26,124.67	22,200.09	26,223.21	25,458.17	32,426.39	44,169.94	46,999.03
Share Information										
Earnings per Share (Rs.)	1.31	2.75	2.92	0.39	1.41	3.53	4.01	3.31	3.48	3.96
Net Assets Value per Share (Rs.)	6.48	8.32	9.56	9.15	10.70	13.05	15.53	24.11	25.41	30.12
Other Information										
No. of Employees	670	1,096	1,153	1,169	1,302	1,420	1,458	1,472	1,497	1,629
No. of Branches	41	64	73	77	78	79	82	85	85	85

Notes

1. Net Assets Value per Share has been calculated, for all periods, based on the number of shares in issue as at 31st December 2019.
2. Financial data of previous years have been re-classified/re-stated to conform with SLFRS 9 requirements.

Investor Relations

Compliance Report on the Contents of Annual Report in terms of the Listing Rules of the Colombo Stock Exchange

The table below summarises the Bank's degree of compliance with the Listing Rules issued by Colombo Stock Exchange;

Rule No.	Disclosure Requirements	Section Reference	Page/s
7.6 (i)	Names of persons who during the financial year were Directors of the Entity	Annual Report of Board of Directors on the Affairs of the Bank	114
7.6 (ii)	Principal activities of the entity during the year and any changes therein	Notes to the Financial Statements (Note 1 - Corporate Information)	134
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Item 02 of the Investor Relations	263
7.6 (iv)	Public Holding information and Market capitalisation ▪ The Public Holding percentage and Number of Shares held by Public ▪ Market capitalisation ▪ Float adjusted market capitalisation ▪ The option of complying with the Minimum Public Holding requirement	 Item 02 of the Investor Relations Item 10 of the Investor Relations Item 02 of the Investor Relations Item 02 of the Investor Relations	 263 266 263 263
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	114
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Item 05 of the Investor Relations	266
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Item 06 of the Investor Relations	266
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Notes to the Financial Statements (Note 22.5) Item 11 of the Investor Relations	173 266
7.6 (ix)	Number of shares representing the Entity's Stated Capital	Notes to the Financial Statements (Note 33)	183
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	264
7.6 (xi)	Ratios and Market Price information ▪ Equity Ratios ▪ Market Price ▪ Debenture Information ▪ Credit Rating	 Item 04 of the Investor Relations Item 04 of the Investor Relations Not Applicable Corporate Information	 265 266 -
7.6 (xii)	Significant changes in the Entity's Property, Plant and Equipment and the market value of land, if the value differs substantially from the book value.	Notes to the Financial Statements (Note 22)	173
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	266
9.3.2.(b)	Disclosure of recurrent related party transactions	Item No. 8 of Investor Relations	266
9.3.2.(c)	Report of the Board Related Party Transactions Review Committee containing specified disclosures	Board Related Party Transactions Review Committee	112
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	114

1. Stock Exchange Listing

The issued ordinary voting shares of Pan Asia Banking Corporation PLC are listed in the Colombo Stock Exchange.

Instrument	Type	Security Code
Voting Shares	Ordinary	PABC N0000

The Audited Statement of Financial Position as at 31st December 2019 and Audited Income statement for the year ended 31st December 2019 of the Bank will be submitted to the Colombo Stock Exchange within 3 months from the Statement of Financial Position date.

2. Names, Number and Percentage of Shares held by Twenty Largest Shareholders

As at 31st December 2019

	Name of Shareholder	Number of Shares	Holding as a %
1.	K. D. D. Perera	132,724,230	29.99
2.	Bansei Securities Co., Ltd.	66,384,246	15.00
3.	Seylan Bank PLC/Ambeon Holdings PLC (Collateral)	43,930,641	9.93
4.	W. K. H. Wegapitiya	27,303,169	6.17
5.	K. D. H. Perera	23,305,998	5.27
6.	D. C. C. Joseph	23,247,896	5.25
7.	P. J. Tay	21,917,994	4.95
8.	K. D. A. Perera	19,200,000	4.34
9.	Imminent Technologies (Pvt) Ltd.	12,627,697	2.85
10.	Sri Lanka Samurdhi Authority	11,114,376	2.51
11.	Sri Lanka Savings Bank Limited	10,298,499	2.33
12.	A. R. Molligoda	3,737,319	0.84
13.	H. Beruwalage	2,046,648	0.46
14.	R. A. De Silva	1,914,915	0.43
15.	D. M. I. Dissanayake	1,486,501	0.34
16.	M. F. Hashim	1,245,960	0.28
17.	D. T. Beruwalage	1,161,448	0.26
18.	M. B. U. N. Fernando	1,020,000	0.23
19.	Favourite Garments (Pvt) Ltd.	1,000,000	0.23
20.	A. P. Somasiri	1,000,000	0.23
	Sub Total	406,667,537	91.89
	Balance held by 4,317 Shareholders	35,894,092	8.11
	Total Number of Shares	442,561,629	100.00

As at 31st December 2018

	Name of Shareholder	Number of Shares	Holding as a %
1.	K. D. D. Perera	132,724,230	29.99
2.	Bansei Securities Co., Ltd.	66,384,246	15.00
3.	Seylan Bank PLC/Ambeon Holdings PLC (Collateral)	43,930,641	9.93
4.	W. K. H. Wegapitiya	27,303,169	6.17
5.	D. C. C. Joseph	25,199,658	5.69
6.	K. D. H. Perera	23,305,998	5.27
7.	P. J. Tay	21,917,994	4.95
8.	K. D. A. Perera	19,200,000	4.34
9.	Sri Lanka Samurdhi Authority	11,114,376	2.51
10.	Sri Lanka Savings Bank Limited	10,298,499	2.33
11.	R. E. U. De Silva	6,799,582	1.54
12.	A. R. Molligoda	3,737,319	0.84
13.	Bank of Ceylon A/c Ceybank Unit Trust	2,748,651	0.62
14.	Capital Development & Investment Company PLC A/c No.2	2,123,343	0.48
15.	H. Beruwalage	2,046,648	0.46
16.	Favourite Garments (Pvt) Ltd.	1,850,000	0.42
17.	M. F. Hashim	1,826,402	0.41
18.	D. T. Beruwalage	1,161,448	0.26
19.	R. A. De Silva	1,139,670	0.26
20.	S. N. P. Palihena	1,000,000	0.23
	Sub Total	405,811,874	91.70
	Balance held by 4,199 Shareholders	36,749,755	8.30
	Total Number of Shares	442,561,629	100.00

As per the Rules No.7.6 (iv) of the Listing Rules of the CSE, Percentage of Public Holding as at 31st December 2019 was 55% in the hands of 4,331 public shareholders. (31st December 2018 - 54.92% in the hands of 4,211 Shareholders).

Float adjusted market capitalisation as at 31st Deccember 2019 was Rs. 3,115,633,868/- (31st December 2018 - Rs. 3,597,211,730/-) and Bank complies with option No 04.

3. Distribution Schedule of the Number of Shareholders and Percentage of Shareholding

The total number of shareholders as at 31st December 2019 were 4,337 (31st December 2018 - 4,219).

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	960	33,324	0.01%	3	72	0.00%	963	33,396	0.01%
101 - 1,000	1,490	742,288	0.17%	6	4,000	0.00%	1,496	746,288	0.17%
1,001 - 5,000	1,005	2,629,139	0.59%	9	26,500	0.01%	1,014	2,655,639	0.60%
5,001 - 10,000	296	2,282,726	0.52%	5	44,332	0.01%	301	2,327,058	0.53%
10,001 - 50,000	383	8,778,785	1.98%	8	203,978	0.05%	391	8,982,763	2.03%
50,001 - 100,000	90	6,637,961	1.50%	1	52,650	0.01%	91	6,690,611	1.51%
100,001 - 500,000	56	11,645,419	2.63%	1	110,000	0.02%	57	11,755,419	2.65%
500,001 - 1,000,000	6	4,702,918	1.06%	-	-	-	6	4,702,918	1.06%
1,000,001 & above	16	316,365,297	71.49%	2	88,302,240	19.95%	18	404,667,537	91.44%
	4,302	353,817,857	79.95%	35	88,743,772	20.05%	4,337	442,561,629	100.00%

Analysis 1.1

	2019			2018		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Resident Shareholders	4,302	353,817,857	79.95%	4,185	353,843,517	79.97%
Non Resident Shareholders	35	88,743,772	20.05%	34	88,718,112	20.03%
	4,337	442,561,629	100.00%	4,219	442,561,629	100.00%

Analysis 2

Range of Shareholding	Individual			Institutional			Total		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
1 - 100	955	32,995	0.01%	8	401	0.00%	963	33,396	0.01%
101 - 1,000	1,458	727,968	0.17%	38	18,320	0.00%	1,496	746,288	0.17%
1,001 - 5,000	987	2,568,297	0.58%	27	87,342	0.02%	1,014	2,655,639	0.60%
5,001 - 10,000	273	2,092,317	0.47%	28	234,741	0.05%	301	2,327,058	0.52%
10,001 - 50,000	352	8,070,335	1.82%	39	912,428	0.21%	391	8,982,763	2.03%
50,001 - 100,000	74	5,439,794	1.23%	17	1,250,817	0.28%	91	6,690,611	1.51%
100,001 - 500,000	40	8,369,022	1.89%	17	3,386,397	0.77%	57	11,755,419	2.66%
500,001 - 1,000,000	3	2,049,970	0.46%	3	2,652,948	0.60%	6	4,702,918	1.06%
1,000,001 & above	13	260,312,078	58.82%	5	144,355,459	32.62%	18	404,667,537	91.44%
	4,155	289,662,776	65.45%	182	152,898,853	34.55%	4,337	442,561,629	100.00%

Analysis 2.1

	2019			2018		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
Individual Shareholders	4,155	289,662,776	65.45%	4,043	295,157,798	66.70%
Institutional Shareholders	182	152,898,853	34.55%	176	147,403,831	33.30%
	4,337	442,561,629	100.00%	4,219	442,561,629	100.00%

4. Information on Ratios and Market Prices

i) Ratios

Year	2019	2018
Dividend Per Share (Rs.)	-	-
Dividend Payout (%)	-	-
Net Assets Value per Share (Rs.)	30.12	25.41
Debt to Equity (Times)	0.69	1.42
Interest Cover (Times)	2.78	2.36
Statutory Liquid Asset Ratio (%)		
Domestic Banking Unit	24.93	29.17
Foreign Currency Banking Unit	23.61	20.09
Liquidity Coverage Ratio (%)		
Rupee	128.84	166.08
All Currency	165.02	136.52

Investor Relations

ii) Market Price - Ordinary Shares

Year	2019 Rs.	2018 Rs.
Highest	15.00	17.60
Lowest	11.70	13.00
Year End	12.80	14.80

5. Material Foreseeable Risk Factors

Information pertaining to the material foreseeable risk factors that require disclosures as per the Rule 7.6(vi) of the Listing Rules of the CSE are discussed in the Future Outlook in pages 38 & 39 and Risk Management Report on pages 62 to 68.

6. Material Issues Pertaining to Employees and Industrial Relations

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be discussed as per the Rule No. 7.6 (vii) of the Listing Rules of the CSE.

7. Non Recurrent Related Party Transactions

The aggregate value of total non recurrent related party transactions entered into by the Bank during the year has not exceeded 10% of equity or 5% of total assets of the Bank.

8. Recurrent Related Party Transactions

All related party transactions entered by the Bank have been reviewed by the Board Related Party Transaction Review Committee during the year 2019. Such transactions were in usual commercial terms and in ordinary course of the business without favourable treatment to the related parties. Further those transactions were of trading nature or necessary for the day to day operation of the Bank. The aggregate value of recurrent related party transactions (other than the exempted transactions) entered into by the Bank during the year has not exceeded 10% of the gross income of the Bank.

9. New Issues and Utilisation of Funds Raised via Share Issues in prior years

The Bank has not raised funds through public issues, rights issues and private placements during the year (2019).

10. Market Capitalisation

Market Capitalisation as at 31st December 2019 - Rs. 5,664,788,851/- (31st December 2018 - Rs. 6,549,912,109/-)

11. Number of buildings owned by the Bank

The Bank ownes two buildings as at 31st December 2019 the details of which are disclosed in Note 22.5 to the Financial Statements.

Glossary of Financial & Banking Terms

A

Acceptance
Promise to pay created when the drawee of a time draft stamps or writes the words 'accepted' above his signature and a designated payment date.

Accounting Policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis
Recognising the effects of transactions and other events as and when they occur without waiting for receipt or payment of cash or cash equivalents.

Actuarial Gain or Loss
Gain or loss arising from difference in estimates and actual loss experience in a defined benefit obligation.

Additional Tier 1 Capital (AT1)
Additional Tier 1 is a component of Tier 1 capital that comprises of securities that are subordinated to most subordinated debt , which have no maturity and their dividends can be cancelled at any time.

Advances to Deposit Ratio (ADR)
Total Loans and Advances expressed as a percentage of total deposit portfolio of the Bank.

Amortisation
The systematic allocation of the depreciable amount of an intangible asset over its useful life time.

Amortised Cost
Amount at which the Financial Asset or Financial Liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

Assets and Liabilities Committee (ALCO)
A risk-management committee in a Bank that generally comprises the senior-management levels of the Bank. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, and external events that may affect the Bank's forecast and strategic balance-sheet allocations.

B

BASEL III
The strengthened global regulatory framework on capital and liquidity issued by Basel committee on Bank Supervision.

Bills for Collection
A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

Bill of Exchange
A signed, written, unconditional order one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of the third person (the Payee). The terms bills of exchange and drafts are often used inter-exchangebly.

C

Call Deposits or Call Money
Deposits or funds lent out which are repayable on demand.

Capital Reserve
Reserves identified for specific purposes and considered not available for distribution.

Cash Equivalents
Short Term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective Impairment Provisions
Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date.

Commercial Paper
An unsecured, short-term debt instrument issued by a company, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commitments
Credit Facilities approved but not yet utilised by the clients at the end of the Reporting Period.

Common Equity Tier 1 Capital
Common Equity Tier 1 Capital representing permanent shareholder's equity and reserves created or increased by appropriation of retained earnings or other surpluses.

Contingencies
A condition or situation existing at the end of the Reporting Period where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contractual Maturity
Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest due to be paid.

Corporate Governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank
A Bank in a foreign country that offers banking facilities to the customers of a Bank in another country.

Cost to Income Ratio
A ratio expressing Bank's cost effectiveness which sets overhead expenses in relation to total operating income.

Credit Ratings
An evaluation of a corporate's ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

Glossary of Financial & Banking Terms

Credit Risk
Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Currency Swaps
The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Country Risk
The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

D

Deferred Tax
Sum set aside in the Financial Statements for taxation that may become payable in a financial year other than the current financial year.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition
Removal of a previously recognised financial assets or financial liability from an entity's Statement of Financial Position.

Derivatives
Financial contracts whose values are derived from the values of underline assets.

Documentary Credit (L/Cs)
Written undertakings by a Bank on behalf of its customers (typically an importer), favouring a third party (e.g. an exporter) where the third party could get paid up to a stipulated amount by fulfilling specific terms and conditions. Such undertakings are established for the purpose of facilitating trade.

E

Earnings per Share
Profit attributable to ordinary shareholders' divided by number of shares in issue during that period.

Effective Interest Rate
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the Financial Asset or Financial Liability.

Effective Tax Rate
Provision for taxation divided by the profit before taxation.

Equity Instruments
Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Events after the Reporting Period
Events after the Reporting Period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Exposure
A claim, contingent claim or position which carries a risk of financial loss.

Exposure at Default (EAD)
The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Earnings Yield
Shows how much an investor earned compared to market price.

F

Fair Value
Fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Finance Lease
Lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

Financial Asset
Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Asset or Financial Liability at Fair Value through Profit or Loss
Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as at fair value through profit or loss.

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)
Financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial Guarantee Contract
A Financial Guarantee Contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial Instruments
Any contract that gives rise to a financial assets of one entity and financial liability or equity instrument of another entity.

Financial Liability
A contractual obligation to deliver cash or another financial asset to another entity.

Float Adjusted Market Capitalisation
Float adjusted market capitalisation is the market value of public shareholding of the listed entity.

Forborne Loans
The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy.

Forward Exchange Contract
Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

General Provisions
General Provisions are established for all Loans and Advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis in accordance with the Regulatory directives.

Guarantees
Primarily represent irrevocable assurances that a Bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

H

Hedging
A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements.

Historical Cost Convention
Recording transactions at the actual value received or paid.

I

Incremental Borrowing Rate
The rate Bank uses to discount the future lease liabilities in recognition of Lease rentals and Right-of-Use assets.

Individually Significant Loans and Advances
Loans and Advances those are individually significant to the Bank and Impairment of which are measured individual/specific basis.

Impairment
This occurs when recoverable amount of an asset is less than its carrying amount.

Individual Impairment Provisions
Individual impairment provisions are provisions held in account of individually significant Loans and Advances.

Impaired Asset Cover
Impaired Assets Cover is the ratio of total impairment provision to total individually impaired assets.

Intangible Asset
An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/services or for rental to others or for administrative purposes.

Interest in Suspense
Interest due on Non Performing assets.

Interest Margin
Net interest income as a percentage of average total assets.

Interest Rate Risk
The risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

Interest Spread
Represents the difference between the average interest rate earned on interest earning assets and the average interest rate incurred on interest bearing liabilities.

Interest Earning Assets
Assets on which the Bank earns interest are considered as interest earning assets. These includes Loans and Advances, placements with banks, other interest bearing trading and non trading investments.

Investment Properties
Investment property is property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for use or sale.

K

Key Management Personnel
Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

Leverage Ratio
The leverage ratio measures how leveraged a bank capital is in relation to its consolidated assets, derivatives exposures and off-balance sheet items. The leverage ratio constrains the degree to which the bank can leverage its capital and improve the extent to which it can sustain negative shocks to its balance sheet.

Lifetime Expected Credit Losses
Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Liquid Assets
Assets that are held in cash or in a form that can be converted to cash readily.

Liquidity Risk
The risk that an entity will encounter difficulty in meeting obligations associated with Financial Liabilities.

Loans and Receivables
Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

Loss Given Default (LGD)
LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the Exposure at Default.

Glossary of Financial & Banking Terms

M

Market Capitalisation
Number of ordinary shares in issue multiplied by the market value of each share at the year end.

Market Risk
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality
The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Accommodation
Total net accommodation computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of five years or more.

Net Assets Value per Share
Total shareholders' funds divided by the number of ordinary shares in issue.

Net Interest Income
The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds, subordinated term borrowings and inter-bank borrowings etc.

Net Stable Funding Ratio (NSFR)
NSFR measures the amount of longer-term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Non-Performing Loans Ratio (Gross)
Total Non-Performing Loans net of interest in suspense divided by total advances portfolio net of interest in suspense.

Non - Performing Loans Ratio (Net)
Total Non - Performing Loans net of interest in suspense and loan loss provisions divided by total advance portfolio net of interest in suspense.

Nostro Account
A foreign currency current account maintained with another Bank, usually but not necessarily a foreign correspondent Bank.

O

Off-Balance Sheet Transactions
Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

Operational Risk
This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Open Credit Exposure Ratio
Total net non-performing Loans and Advances expressed as a percentage of regulatory capital base.

P

Price to Book Value
Shows a comparison of Bank's market to book value.

Past Due
A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Price Earnings Ratio
Times the Bank need to earn in order to cover the Bank's market price.

Provision for Loan Losses
A charge to income added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets to estimated realisable values.

Projected Unit Credit Method
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Probability of Default (PD)
PD is an estimate of the likelihood of default over a given time horizon.

Prudence
Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Purchased on Credit Impaired Financial Assets (POCI)
POCI assets are financial assets that are credit impaired on the initial recognition.

R

Ratio of Impaired Loans and Advances
Ratio for Impaired Loans and Advances is the ratio of gross impaired Loans and Advances portfolio as a percentage of gross Loans and Advances.

Related Parties
Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Repurchase Agreement
Contract to sell and subsequently repurchase securities at a specific date and price.

Re-scheduled Credit Facilities
Re-scheduled credit facilities are facilities which the original repayment terms have been amended due to deterioration in credit quality, while the respective facility is in the 'Non Performing' status as defined in the relevant regulatory directions.

Re-structured Credit Facilities
Re-structured credit facilities are credit facilities which the original repayment terms have been amended due to

deterioration in credit quality while the respective facility is in the 'Performing' status as defined in the relevant regulatory directions.

Return on Assets (ROA)
Profit after tax divided by the average assets.

Return on Equity (ROE)
Profit after tax expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserve
Reserves set aside for future distribution and investment.

Reverse Repurchase Agreement
Transaction involving the purchase of the securities by a bank or dealer and resale back to the seller at a future date and specified price.

Risk Weighted Assets
On-Balance Sheet assets and the credit equivalent of Off- Balance Sheet facilities multiplied by the relevant risk weighting factors.

Right-of-Use Assets
Right-of-Use Assets include assets recognised at the present value of future lease rentals less any amortisation and impairment accumulated at the date of reporting.

S

Segment Reporting
Segment reporting indicates the contribution to the revenue derived from business segments such as retail banking, corporate banking and treasury.

Shareholders' Funds
Total of stated capital, revenue reserves and capital reserves.

Statutory Reserve Fund
A reserve created as per the provisions of the Banking Act No. 30 of 1988.

Stage 1 Financial Assets
When financial assets are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 also includes facilities where the credit risk has improved and the loan has been reclassified from Stage 2. This includes financial assets the credit risk of which have not been significantly increased since the origination.

Stage 2 Financial Assets
Financial assets that have shown a significant increase in credit risk since origination are considered as a stage 2 financial asset. The Bank records an allowance for the LTECLs on stage 2 assets. These include financial assets where the credit risk has improved and the assets that have been reclassified from Stage 3.

Stage 3 Financial Assets
Credit impaired financial assets are considered as stage 3 assets. The Bank records an allowance for the LTECLs for Stage 3 assets.

T

Total Tier 1 Capital
Total Tier 1 Capital comprise of Common Equity Tier 1 Capital and Additional Tier 1 Capital.

Tier 2 Capital
The Tier 2 Capital comprise of Eligible Subordinated Debt, General provision for Performing and Special Mention Credit Facilities and approved Revaluation Surpluses on Freehold Land and Building.

Total Capital
Total Capital representing the sum of Total Tier 1 Capital and Tier 2 Capital.

Transaction Costs
Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Twelve Month Expected Credit Losses (12mECL)
12mECLs are expected credit losses that result from all possible default events over a 12 month period. Stage 1 assets are subject to 12mECLs.

U

Undrawn Credit Lines
Credit facilities approved but not yet utilised by the clients as at the end of the reporting period.

Unit Trust
An undertaking formed to invest in securities under the terms of a trust deed.

Unsecured
Repayment of the principal and interest not being secured by any specific asset.

V

Value Added
Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y

Yield to Maturity
Discount rate at which the present value of future payments would equal the security's current price.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the TWENTY FIFTH ANNUAL GENERAL MEETING of PAN ASIA BANKING CORPORATION PLC will be held at The Institute of Chartered Accountants of Sri Lanka, No. 30A, Malalasekera Mawatha, Colombo 07 on 31st March 2020 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 2019 with the Report of the Auditors thereon.

2. To re-elect, Dimuth Prasanna, 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, Aravinda Perera, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.

4. To authorise the Directors to determine donations for the year 2020.

5. To re-appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.

Notes :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead.

2. A proxy need not be a member of the Company. The form of proxy is enclosed herewith.

3. The completed form of proxy must be deposited with the Company Secretary at the Registered Office of the Company, No. 450, Galle Road, Colombo 3 not later than 48 hours prior to the time appointed for the holding of the meeting.

4. Shareholders/proxies attending the meeting are requested to bring their National Identity Cards.

By Order of the Board

N Fernando

Nayantha Fernando
Company Secretary

17th February 2020

Notes

Notes

Form of Proxy

I/We ....

(NIC No/s...) of ....

....being

a shareholder/being shareholders of Pan Asia Banking Corporation PLC, hereby appoint

1.	Dimuth Prasanna	of Colombo or failing him
	Sarath Rangamuwa	of Colombo or failing him
	Mohan Abeynaike	of Colombo or failing him
	Takashi Igarashi	of Colombo or failing him
	Toyohiko Murakami	of Colombo or failing him
	Nihal Kekulawala	of Colombo or failing him
	Aravinda Perera	of Colombo or failing him
	Nimal Tillekeratne	of Colombo

2. ....

(NIC No...) of ....

....

as my/our* proxy to vote on my/our* behalf at the Twenty Fifth Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 31st March 2020 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 2019 with the Report of the Auditors thereon.	☐	☐
2.	Resolution No. 2 To re-elect Dimuth Prasanna, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.	☐	☐
3.	Resolution No. 3 To re-elect Aravinda Perera, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.	☐	☐

Form of Proxy

	For	Against
4. Resolution No. 4 To authorise the Directors to determine the donations for the year 2020.		
5. Resolution No. 5 To re-appoint the Auditors of the Bank, M/s Ernst &Young and to authorise the Directors to determine their remuneration.		

As witness I/we* have set my/our* hand/s* hereunto this ....day of .... Two Thousand and Twenty.

....
Signature of Shareholder.

Note : Instructions as to completion of the Form of Proxy.

1. To be valid, this form of proxy must be deposited with the Company Secretary at the Registered Office situated at No.450, Galle Road, Colombo 3, before 9.30 a.m. on the 29th March 2020 being 48 hours before the time appointed for holding the meeting.

2. In perfecting the form of proxy please ensure that all details are legible.

3. The proxy appointed need not be a shareholder of Pan Asia Banking Corporation PLC.

4. If the shareholder is a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.

5. A shareholder appointing a proxy (other than a Director of the Bank) to attend the meeting should indicate the proxy holder's National Identity Card (NIC) number on the Form of Proxy and request the proxy holder to bring his/her * National Identity Card with him/her*.

6. Please indicate with 'x' in the space provided how your proxy is to vote on each resolution.

* Delete whichever is inapplicable.

Corporate Information

Registered Name of the Company
Pan Asia Banking Corporation PLC

Legal Form
A Public Limited Liability Company incorporated in Sri Lanka on 06th March 1995 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007.
A Licensed Commercial Bank under the Banking Act No. 30 of 1988 and listed on the Colombo Stock Exchange.

Company Registration Number
PQ 48

Registered Office/ Head Office
No. 450, Galle Road,
Colombo 03,
Sri Lanka.
Telephone : +94112565565
+94114667777
+94115167777
Fax : +94112565558

Call Center (24/7 Customer Service Hotline)
Telephone : +94114667222
Fax : +94112575023
SWIFT Code : PABSLKLX
E-mail : customerservice@pabcbank.com
Web Site : www.pabcbank.com

Tax Payer Identification Number (TIN)
134005700

Accounting Year End
31st December

Stock Exchange Listing
442,561,629 Ordinary Voting Shares

Board of Directors
Dimuth Prasanna	-	Chairman
Sarath Rangamuwa	-	Deputy Chairman
Mohan Abeynaike	-	Senior Director
Takashi Igarashi	-	Director
Toyohiko Murakami	-	Director
Nihal Kekulawala	-	Director
Aravinda Perera	-	Director
Nimal Tillekeratne	-	Director/CEO

Company Secretary
Nayantha Fernando

Board Audit Committee
Mohan Abeynaike	-	Chairman
Toyohiko Murakami	-	Director
Sarath Rangamuwa	-	Director
Nihal Kekulawala	-	Director

Board Credit Committee
Dimuth Prasanna	-	Chairman
Sarath Rangamuwa	-	Director
Aravinda Perera	-	Director

Board Integrated Risk Management Committee
Nihal Kekulawala	-	Chairman
Dimuth Prasanna	-	Director
Takashi Igarashi	-	Director

Board Human Resources & Remuneration Committee
Dimuth Prasanna	-	Chairman
Mohan Abeynaike	-	Director
Nihal Kekulawala	-	Director

Board Nomination Committee
Mohan Abeynaike	-	Chairman
Dimuth Prasanna	-	Director
Aravinda Perera	-	Director

Board Strategic Planning Committee
Mohan Abeynaike	-	Chairman
Sarath Rangamuwa	-	Director
Nihal Kekulawala	-	Director
Aravinda Perera	-	Director

Board Related Party Transaction Review Committee
Mohan Abeynaike	-	Chairman
Takashi Igarashi	-	Director
Sarath Rangamuwa	-	Director

Board Recoveries Committee
Dimuth Prasanna	-	Chairman
Sarath Rangamuwa	-	Director
Aravinda Perera	-	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

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PAN ASIA BANK
The Truly Sri Lankan Bank

Pan Asia Banking Corporation PLC
450, Galle Road,
Colombo 03,
Sri Lanka.