

# DIGITALLY EMPOWERED



**PEOPLE'S BANK**  
ANNUAL REPORT 2018





# DIGITALLY EMPOWERED

At the forefront of the banking industry, People's Bank has been exemplary in giving customers a technologically advanced experience that makes transacting effortless. Our bold statement that combines innovation and convenience has certainly made the country sit up and take notice as we continue to make ripples both in the national and international arena; garnering accolades and recognition as we remain at the front and center in our drive to digitally empower the nation

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## ABOUT THE REPORT



### INTRODUCTION

In this our fourth Integrated Annual Report, we continue to advocate the principles of integrated reporting. We believe that this approach has served us well in the past by providing the framework to report on People's Bank's progress in delivering its core purpose as a state-owned bank.

This report is prepared for the benefit of Bank's stakeholders and as such contains information relevant to the way we create value for other key stakeholders, including our staff, clients, regulators and communities.

#### GRI 102-51

Our most recent integrated report for the year ended 31st December 2017, as well as the reports for the past 3 years are available on our website:



<https://www.peoplesbank.lk>

#### GRI 102-45, 102-46, 102-48, 102-49, 102-50, 102-52

### SCOPE AND BOUNDARY

This report covers the period 01st January 2018 to 31st December 2018, which coincides with our financial reporting cycle. The report provides an overview of the entire operations of People's Bank and its three subsidiaries, People's Leasing & Finance PLC, People's Merchant Finance PLC and People's Travels (pvt) Ltd. are collectively referred to as "Group" in this annual Report and are included in the Consolidated Financial Statements. This also includes our strategy, targets and objectives as well as the key performance indicators for the year. To reflect the importance assigned to integrated thinking, the report extends beyond financial reporting and includes non-financial performance, opportunities, risks and outcomes attributable to or associated with our key stakeholders, which have a significant influence on our ability to create value. The human capital, environmental aspects, customer and infrastructure related aspects are discussed in the context of the Bank.

There were no significant changes from previous reporting periods in the scope and aspect boundaries, neither were there any restatements as compared to the Annual Report issued in the previous reporting year.

### MATERIALITY

To define the content to be presented in the report, we have applied the principle of materiality. Accordingly the report captures the opportunities and challenges that impact materially on People's Bank and its ability to be a sustainable business that consistently delivers value to shareholders, prospective investors and our key stakeholders. These Material matters are described on page 85 to 87 of this report.

#### GRI 102-12, 102-54

### REPORTING FRAMEWORKS

Our Integrated Reporting process, as well as the contents of this report, are guided primarily by the principles outlined by the International Integrated Reporting Council (IIRC) Integrated Reporting Framework <IR>. In the interest of greater transparency, certain sections of the report also refer to the Global Reporting Initiative (GRI) Standards, where we have opted for the "In Accordance-core".



The Corporate Governance section has been prepared in accordance with the Banking Act Direction no. 11 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank.

#### GRI 102-11

### PRECAUTIONARY PRINCIPLE

The precautionary principle is applied in relation to our social and environmental sustainability. As a responsible corporate citizen, we have taken necessary measures to mitigate the risks caused to society and environment through our actions. These are detailed under Community Capital and Natural Capital on pages 132 to 136.

## ABOUT THE REPORT

### COMPLIANCE

The Financial Statements of People's Bank have been prepared in accordance with the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka. The Bank has adhered to the requirements of the People's Bank Act No. 29 of 1961 and the Banking Act No. 30 of 1988.

### GRI 102-56

### ASSURANCE

We employ a combined assurance model to assess and assure various aspects of the business operations.

	Internal	External / Independent
Financial Reporting	Board of Directors, Internal Audit	The Auditor General, Messrs Ernst & Young, Chartered Accountants, Sri Lanka
Sustainability Reporting	Board of Directors, Internal Audit, Business Heads	Messrs Ernst & Young
Corporate Governance	Board of Directors, Internal Audit	The Auditor General, Messrs Ernst & Young, Chartered Accountants, Sri Lanka
Internal Controls	Board of Directors, Internal Audit	The Auditor General, Messrs Ernst & Young, Chartered Accountants, Sri Lanka

### FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements with respect to the financial condition and results of operations of People's Bank that, by their nature, involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Factors that could cause actual results to differ materially from those in the forward-looking statements include national economic conditions, interest rates; exchange rates; credit or other risks of lending and investment activities, as well as competitive and regulatory factors. Consequently, People's Bank does not undertake to review and revise any of these forward-looking statements at a later date.

### GRI 102-53

#### Queries and Feedback

Any queries and / or feedback can be directed to;

**Management Information Department**  
 People's Bank,  
 No. 75, Sir Chittampalm A Gardiner Mawatha, Colombo 02.

**Tel:** +94 112327841, +94 112446315, +94 112481481  
**Email:** info@peoplesbank.lk  
**Website:** www.peoplesbank.lk



## ABOUT THE BANK



**PEOPLE'S  
BANK**

**The Bank of the People**

People's Bank was established as a licensed commercial Bank under the People's Bank Act No. 29 of 1961. With an asset base of Rs. 1,734.7 billion as at 31st December 2018, People's Bank is among few systematically important banks in Sri Lanka. Since its inception, People's Bank has remained firmly rooted in positioning itself as a "Bank for the People", leading to consistent and ongoing investments over the past 5 decades to expand the portfolio of products and services as well as the outreach across the country.

Serving over 10 million customers island-wide today, the People's brand remains one of the most respected, reliable, and valuable brands in Sri Lanka's banking industry with an estimated brand equity of Rs. 35.3 billion in 2018. The fact that People's Bank was awarded the People's Service Provider of the year and the People's Service Brand of the Year for 2018 further testifies to the public acceptance of the People's brand.

Being a progressive Bank, People's Bank recently undertook an ambitious digitalization initiative that seeks to transform People's Bank as the leading digital Bank in Sri Lanka by 2025. This is seen as the natural next step in repositioning People's Bank as the Bank of choice for a new generation of customers.



## OUR VISION, MISSION AND VALUES



### OUR VISION

- ◆ To be recognised as Sri Lanka's undisputed market leader for financial services.



### OUR MISSION

- ◆ We are in the business of providing financial services that contribute to the quality of life, and enterprise development, via affordable, accessible, and efficiently delivered solutions
- ◆ We empower and develop our human resources, so that they will care for and protect our customers
- ◆ We contribute to national economic development while being competitively profitable
- ◆ We believe in 'giving back' to the society we operate in while being sustainable in our business practices

GRI 102-16



### OUR VALUES





- ◆ Being the pulse of the nation
- ◆ Customer focus and agility
- ◆ Integrity and accountability
- ◆ Continuous learning culture and team spirit
- ◆ Empowerment and diversity



## ABOUT THE GROUP

The People's Bank Group is made of the Bank and three subsidiaries that offer complementary services for identified customer segments. The Group makes a significant contribution to Sri Lanka's socio economic development each year, serving over 10 million customers and providing employment over 11,000 people across the country.

The People's Bank Group comprises the Bank, People's Leasing Finance PLC, People's Travels (pvt) Ltd and People's Merchant Finance PLC. People's Bank is the largest contributor to Group, accounting for 91% of the assets and 80% of the earnings.

Client	Product & Service	PB Holding percentage	Highlights
<b>People's Bank</b>  The Bank of the People	Individuals, Micro Enterprises, Small and Medium Sized Businesses, Corporate, Government and State owned Enterprises <ul style="list-style-type: none"> <li>◆ Retail Banking</li> <li>◆ Enterprise Banking</li> <li>◆ Corporate Banking</li> <li>◆ International Banking</li> </ul>		<b>Assets</b> : Rs. 1,735 billion <b>Deposits</b> : Rs. 1,423 billion <b>Net Profit</b> : Rs. 17,095 million <b>Headcount</b> : 8,093
<b>People's Leasing &amp; Finance PLC</b> 	Individuals, Micro Enterprises, Small and Medium Sized Businesses <ul style="list-style-type: none"> <li>◆ Leasing and Hire Purchases</li> <li>◆ Micro-finance</li> <li>◆ Deposits</li> <li>◆ Loans</li> </ul>	75%	<b>Assets</b> : Rs. 188,099 million <b>Deposits</b> : Rs. 74,445 million <b>Net Profit</b> : Rs. 5,445 <b>Headcount</b> : 3,160
<b>People's Travels (pvt) Ltd</b> 	Individuals, micro Enterprises, Small and medium sized businesses <ul style="list-style-type: none"> <li>◆ Inbound Travels</li> <li>◆ Outbound Travels</li> <li>◆ Destination Management</li> </ul>	99%	<b>Assets</b> : Rs. 134 million <b>Net Profit</b> : Rs. 12.4 million <b>Headcount</b> : 28
<b>People's Merchant Finance PLC</b> 	Individuals, Corporates <ul style="list-style-type: none"> <li>◆ Leasing and Hire Purchase</li> <li>◆ Deposits</li> <li>◆ Margin Trading</li> </ul>	50.16%	<b>Assets</b> : Rs. 3,373 million <b>Deposits</b> : Rs. 2,278 million <b>Headcount</b> : 127

# TRANSACTIONS WITH A SWIPE

The first in Sri Lankan banking history, to digitalise branches, revolutionising and streamlining the banking experience for a tech-savvy generation.





Cash Deposits

Green Banking

ATM  
Cash Withdrawals

ATM  
Cash Withdrawals  
Balance Inquiry

Welcome To  
People's Bank ATM

Welcome To  
People's Bank ATM

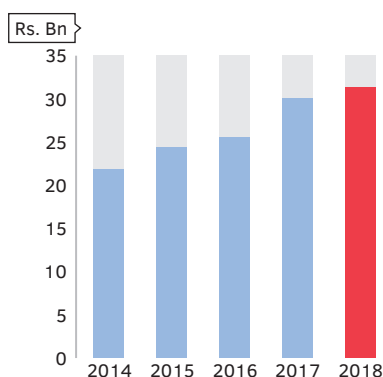


## FINANCIAL HIGHLIGHTS

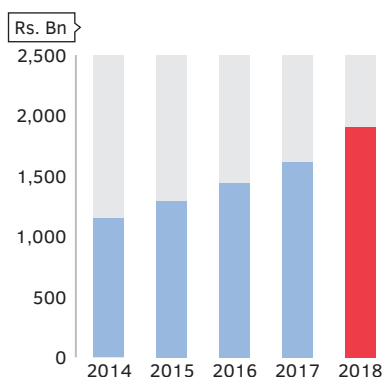
GRI 102-7

	2018	BANK 2017	change (%)	2018	GROUP 2017	change (%)
<b>Operating Performance (Rs. billion)</b>						
Interest income	171.1	149.2	14.7	200.3	173.8	15.2
Net interest income	60.1	50.5	19.1	75.9	62.7	20.9
Gross income	186.0	162.2	14.7	219.4	190.2	15.3
Operating profit before VAT & tax	32.0	32.2	(0.7)	40.6	37.3	9.0
Profit before tax	24.4	25.9	(5.8)	31.2	29.9	4.3
Taxation	7.3	7.7	(4.6)	9.7	9.4	3.3
Profit after tax	17.1	18.2	(6.3)	21.5	20.5	4.8
Dividends paid to GOSL	3.4	5.2	(34.5)	3.4	5.2	(34.9)
Retained profit	13.7	13.0	4.9	18.1	15.3	18.3
<b>Financial Position (Rs. billion)</b>						
Total assets	1,734.7	1,467.1	18.2	1,908.5	1,619.1	17.9
Gross loans and advances	1,334.4	1,074.2	24.2	1,489.9	1,209.1	23.2
Total deposits	1,423.0	1,244.0	14.4	1,495.3	1,305.6	14.5
Shareholders' funds	91.2	77.5	17.8	123.5	106.4	16.0
<b>Performance ratios (%)</b>						
Return on average assets (before tax)	1.5	1.9	(19.8)	1.8	1.9	(7.0)
Return on equity	20.3	26.6	(23.8)	18.7	21.4	(12.7)
Cost to income ratio	57.5	54.8	4.9	57.7	56.6	2.0
Non-performing loans ratio	2.5	1.9	31.6	2.7	2.0	35.0
Provision coverage	72.3	97.5	(25.8)	71.6	92.7	(22.8)
Statutory liquidity ratio - DBU	23.0	24.1	(4.4)			
- FCBU	30.4	32.4	(6.2)			
Loans to deposit ratio	93.8	86.4	8.6	99.6	92.6	7.6
Capital Adequacy Ratio - Tier I	11.0	10.8	1.7	11.7	11.5	1.0
- Total	14.5	13.5	7.4	14.5	13.7	5.0
<b>Shareholder ratios (Rs.)</b>						
Earnings per share	17,095	18,250	(6.3)	19,978	19,296	3.5
Net asset value per share	91,209	77,457	17.8	123,513	106,443	16.0

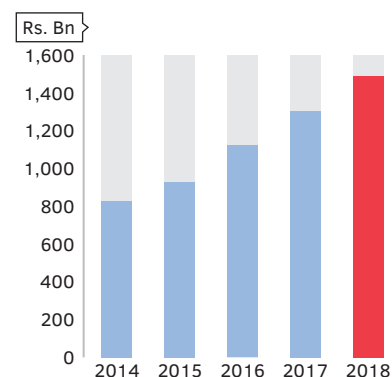
Profit Before Tax (Group)



Total Assets (Group)

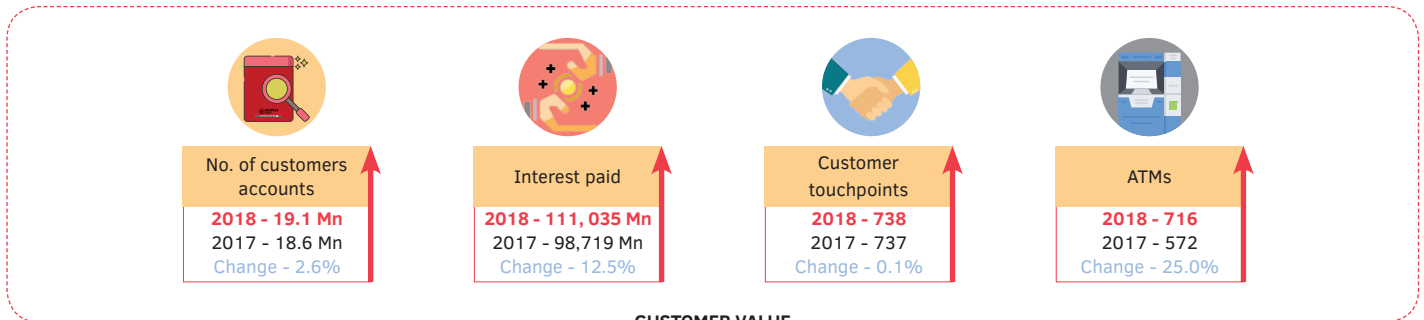


Total Deposits (Group)



## NON-FINANCIAL HIGHLIGHTS

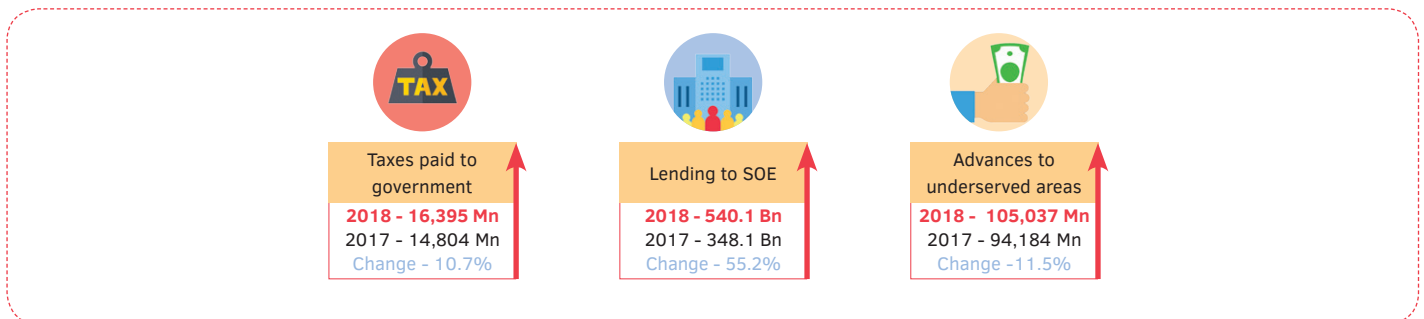
GRI 102-7



### CUSTOMER VALUE



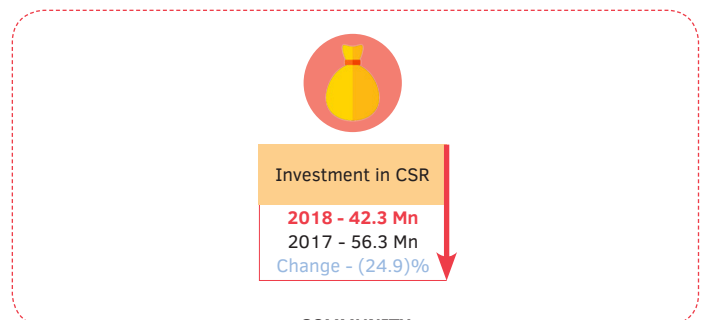
### EMPLOYEE VALUE



### NATIONAL CONTRIBUTION



### BUSINESS PARTNERS



### COMMUNITY

## MILESTONES

### 1961 >>>

People's Bank was inaugurated on 1st July 1961. The first branch was opened at Duke Street, Colombo. During the year, eight more branches were opened in Polonnaruwa, Hingurakgoda, Hambantota, Anuradhapura, Puttalam, Matale and Kandy in addition to the Foreign Branch in Colombo. **The total number of employees stood at 169.**

### 1962 >>>

The Head Office was relocated to Ratnam's Building in Union Place, Colombo 2 and 17 more branches were opened.

### 1964 >>>

The Co-operative Rural Banking Scheme was inaugurated.

### 1963 >>>

The Bank commenced its pawning services.

### 1965 >>>

Some departments of the Bank were relocated to the GCSU building in Sir Chittampalam A. Gardiner Mawatha, Colombo 2. The total number of branches increased to 48, this included new branches in Horana, Kekirawa, Padaviya, Mannar, Embilipitiya, Kahatagasdigiliya, Ragala and Talawakelle.

### 1967 >>>

**The Bank commenced a new Agriculture Credit Scheme becoming the pioneer lender to the small farm sector.**

### 1970 >>>

The "Athamaru" loan scheme was introduced to finance economic activities of the informal sector. The Investment Savings Scheme, a credit linked savings scheme was launched to attract regular savers.

### 1971 >>>

**The Bank's hundredth branch was opened at Marandagahamula.**

### 1973 >>>

**A comprehensive rural credit scheme was launched to provide both production and consumption credit facilities.**

The Bank initiated the "Ganu-Denu" practice, identifying itself with the traditions of the Sinhala and Tamil New Year and encouraging customers to transact with the Bank at the auspicious time.

### 1975 >>>

An aggressive branch expansion programme brought our total branch count to 158.

### 1977 >>>

**Our 200th branch opened at Kollupitiya.** The Head Office was relocated to a building in Fort. The total number of employees reached 5,000. The first fisheries bank was opened at Koralawella.

### 1981 >>>

Our branch network increased to 290. The Extended Minors' Savings Scheme was launched.

### 1981 >>>

The 300th branch of the Bank opened at Ingiriya. The total number of employees reached 10,000.

### 1984 >>>

The People's Merchant Bank, a Subsidiary of the Bank, was established. Our branch at Slave Island was merged with the International Division and the Fort Foreign Branch.

### 1986 >>>

The process of computerization began at our Head Office and selected city branches and a Black Light System was introduced. Customer turnaround time was thereby significantly reduced.

### 1987 >>>

Our Headquarters Branch became the Bank's first fully-automated branch. A special loan scheme for rural electrification was implemented in collaboration with the CEB.

### 1989 >>>

The Bank participated in a loan scheme sponsored by the Ministry of Labour to provide for housing against EPF balances. A scheme was launched in association with the Sri Lanka Foreign Employment Bureau to provide loans for job seekers abroad. The Bank participated in a loan scheme launched by REPIA to provide credit to those affected by civil unrest in 1983. A Janasaviya associated loan scheme was introduced during the year. The Bank also commenced issuing Negotiable Savings Certificates during the year.

## 1990 >>>

An Endowment Savings Deposit Scheme was introduced. The People's Visa Card was introduced in association with Visa International and 24 branches were fully-computerised.

## 1991 >>>

The first ATM was installed at our Headquarters Branch.

## 1992 >>>

**The Bank supported the Government's 200 Garment Factory Programme.** "People's Automated Banking System" (PABS) a banking application developed in-house, commenced live operations.

## 1993 >>>

Three hundred and thirty bank branches were operating throughout the country and 35 main branches were fully automated. "Vanitha Vasana", a savings scheme for women was introduced.

## 1994 >>>

Eight new ATMs were installed and 160 branches were computerized under the automation programme.

## 1995 >>>

"Gurusetha", a new deposit mobilisation and loan scheme catering to Government teachers was launched with the co-operation of the Ministry of Education.

## 1996 >>>

"Suwa Sevana", a credit package for Government sector health personnel was launched. "Sisu Udana", a new deposit scheme for school children was introduced. The Bank participated in two ADB-funded credit schemes – the Tea Small Holdings Development Project and the Perennial Crops Development Project. The Bank's fully-owned subsidiaries, People's Leasing Co. (PA) Ltd. and People's Travels (Pvt) Ltd., commenced operations. Zonal offices were opened to strengthen decentralised administration and to facilitate better customer service.

## 1997 >>>

The "Surathura" Loan Scheme was launched to assist self-employment projects. The Bank extended its credit facilities to small and medium scale enterprises and industries under the NDB-funded Small and Medium Enterprises Assistance Project (SMEAP).

## 1998 >>>

The total number of ATMs increased to 36, serving over 125,000 PET cardholders. One hundred and seventy-five branches were fully-automated and the number of pawning centres increased to 188. A special credit cum deposit scheme known as "Videshika" was introduced in collaboration with the Sri Lanka Foreign Employment Bureau to assist migrant workers.

## 1999 >>>

The Bank launched "Isuru Udana", a deposit scheme that encourages parents and guardians to save for the benefit of their young charges.

## 2000 >>>

The "Jana Jaya", savings cum loan scheme was launched. The newly introduced "Jaya Sri" draw offered attractive prizes for depositors. The ATM network expanded to 74 machines throughout the country. The Central ATM Switch was introduced to connect the PABS branches and the ATM.

## 2001 >>>

The Bank's corporate management team was strengthened by the recruitment of certain heads of divisions from the private banking sector. Restructuring of the Bank was initiated through the launch of a Strategic Plan. The total number of ATM machines grew to 90.

## 2002 >>>

The number of PABS automated branches increased to 218 and 119 branches were connected to the Central ATM Switch. A Treasury automation package was implemented.

## 2003 >>>

The 11th CEO/General Manager of the Bank, Mr. Asoka de Silva assumed duties on 1st February 2003. The Young Executive Saver's (YES) Account was launched. The Bank signed up with Silver Lake System SDV BUD Malaysia to install a state-of-the-art core banking package and trade services solutions which will initially be operational in 60 selected branches including Head Office.

## 2004 >>>

The second phase of the restructuring plan for 2004-2008 launched and approved by the Government of Sri Lanka was based on the recapitalization support of ADB. The Bank obtained the first ever public rating of BBB+ from Fitch Ratings Lanka. The Core Banking project was implemented successfully.

## 2005 >>>

The 15th Chairman of the Bank Dr. P.A. Kiriwadeniya assumed duties at the beginning of December 2005. This was followed immediately thereafter with a receipt of Rs. 2 billion as the first tranche of Equity Capital Investment in the Bank by the Government of Sri Lanka in keeping with the agreement signed between the Government, ADB and People's Bank. The core banking project was further extended across the branch network. The Bank was also a major intermediary in bringing Government-granted financial assistance for rebuilding, after the December 2004 tsunami.

## 2006 >>>

The Bank obtained an A-rating from Fitch Ratings Lanka Ltd., indicating progress from its earlier rating level. People's Bank was awarded the POP Award for 2006 in the banking and financial services sector by the Sri Lanka Institute of Marketing. The second tranche of capital of Rs. 1 billion was received from the Government of Sri Lanka.

## 2007 >>>

The 16th Chairman of the Bank Mr. W. Karunajeewa assumed duties in May 2007. The rating level of A - from Fitch Ratings was maintained during the year. The Government of Sri Lanka injected the third capital tranche of Rs. 1.5 billion into People's Bank. People's Bank won the People's Award for the Banking and Financial Services Brand of the Year for the second consecutive year. The Bank surpassed the Rs. 300 billion mark in total deposits during the year 2007.

## 2008 >>>

Mr. M. Wickremasinghe assumed office as the 12th CEO/General Manager of the Bank. The Government of Sri Lanka released the fourth capital tranche of Rs. 1.5 billion. The Bank reached the Capital Adequacy Level of 10.5% by the end of the year. Further, the Bank's first Debenture issue of Rs. 2.5 billion was made in the year. A notable advancement in the Bank's remittance service with the introduction of "People's e-Remittance", a web-based remittance product supported by latest technology to remit money from overseas within minutes. Two new foreign currency deposit products were launched, viz., "Doo Daru Ethera Isura" a foreign currency deposit product for children and "Special Foreign Investment Deposit Account" [SFIDA].

## 2009 >>>

The 13th CEO/General Manager of the Bank, Mr. P.V. Pathirana assumed duties in January 2009. The Bank issued its second Debenture for Rs. 2.5 billion during the year. 214 branches and 236 service centres were connected online. The Bank strategically placed over 300 ATMs islandwide. Total deposits reached Rs. 400 billion. The highest recorded profit before tax of Rs. 6.1 billion was achieved. Received a SAFA (South Asian Federation of Accountants) Award for the 2008 Annual Report for the first time in the Bank's history.

## 2010 >>>

Mr. H.S. Dharmasiri assumed office as the 14th CEO/General Manager of the Bank in October 2010. Branch Network and service centres expanded to 679. ATMs increased to 330. People's International VISA Debit Card was launched in July 2010. The Bank obtained AA- from Fitch Ratings Lanka Ltd. and AAA from Ram Ratings. Total deposits surpassed Rs. 462 billion during the year 2010. The highest recorded profit before tax of Rs. 8.7 billion was achieved. The People's Bank Annual Report won two Gold Awards at the ARC Awards held in New York. The Bank received the SAFA (South Asian Federation of Accountants) Award, for the 1st place in the Public Sector Category, for the 2009 Annual Report.

## 2011 >>>

Mr. N. Vasantha Kumar assumed office as the 15th CEO/General Manager of the Bank on 22nd February 2011. The Bank celebrated the Golden Jubilee on 1st July 2011. Total branch network reached 714 whilst ATM locations increased to 382 covering almost all parts of the island. The Bank obtained an upgraded rating of AA (stable) from Fitch Ratings Lanka Ltd. The Bank's total assets, total deposits and total loans and receivables surpassed Rs. 663 billion, Rs. 539 billion and Rs. 478 billion respectively. The highest recorded profit before tax of Rs. 15.3 billion and a profit after tax of Rs. 10.2 billion were achieved. People's Bank won the SLIM-Nielsen People's Award for the Most Popular Bank in the Sri Lankan Banking and Financial Services Sector, the SLIM-Nielsen People's Awards – Service Brand of the Year, and also won the Bronze Award for the Service Category at the SLIM Brand Excellence Awards 2011.

## 2012 >>>

The total branch network reached 728, whilst ATM locations increased to 420 covering almost all parts of the island. The Bank obtained an upgraded rating of AA + (stable) from Fitch Ratings Lanka Ltd. The Bank's total assets, total deposits and total loans and receivables surpassed Rs. 873 billion, Rs. 683 billion and Rs. 660 billion respectively. The Bank's 2011 Annual Report won one Grand Award and three Gold Awards in the National Category at the 2012 International ARC Awards.

## 2013 >>>

Mr. Gamini S. Senarath assumed duties as the 17th Chairman of the Bank in February 2013. Twenty three SME Centres were established across the island. Surpassed one million cards milestone during the year with access to over 30 million Visa accredited merchants globally. Corporate customers were provided with an on line real time payment facility for EPF, ETF and Customs Duty Payments. People's Bank became the first Bank to be connected to the National Common ATM Switch. ATM locations increased to 460 with the branch network expanding to 735. Rs. 5 billion worth Debentures issued during the year at the Bank's fourth Debenture issue.



## 2014 >>>

2014 The Bank's asset base crossed one trillion rupees, as the second largest bank in the industry. Bank garnered the triple accolades of "Bank of the Year 2014" at the European Global Banking and Finance Award-Sri Lanka 2014 as well as "Best Banking Group Sri Lanka" and "Most Sustainable Bank Sri Lanka" at the World Finance Banking Awards 2014.

## 2015 >>>

The Bank commenced an ambitious digitisation initiative with the objective of enhancing its customer value proposition, generating operational efficiencies and strengthening risk management capabilities. Accordingly, the Bank upgraded its ATM network to an enterprise strength hardware platform to increase security and reliability to customers. Investments were also made in upgrading the Core Banking System, data warehousing capabilities and POS infrastructure.

The Bank launched a Green Banking Concept in demonstrating its sustainability commitments. Successfully rolled out to the Bank's strategic plan for 2016-2020, which is expected to further fortify the Bank's market position and deliver long-term value to its stakeholders.

## 2016 >>>

The Group achieved the rupees one trillion milestones in both deposits and advances during the year, the only financial services group to achieve two trillion rupee feats in a single year. The Bank was awarded the "Best Banking Group in Sri Lanka" and the "Most Sustainable Bank in Sri Lanka" by World Finance Banking Awards for the third consecutive year. It was also adjudged the 387th largest Bank in Asia. In line with its digitisation drive, the Bank launched self-banking centres comprising cash deposit machines (CDM), ATMs and kiosks in seven locations in Colombo, effectively catering to customers' increasing demand for convenient financial solutions and seamless banking.

The Bank launched a new logo to reflect the Bank's evolution in keeping pace with new global trends and catering to the fast changing aspirations of customers.

## 2017 >>>

The Group reached new highs and etched many milestones in 2017. Total operating income notched at Rs. 79 billion reaching an industry high. The consolidated contribution towards national economic development via taxation, special levies and dividends over the last ten years surpassed the Rs. 150.0 billion mark. Additionally, the Bank received a new capital infusion of Rs. 5.0 billion for first time in the past eight years.

The Bank witnessed many firsts in the digital and Information Technology sphere, with the opening of Sri Lanka's first fully-digitalised branch in Colombo and receiving the prestigious ISO/IEC 27001:2013 quality certification for Information Security Management. This is the world's highest accreditation for information protection and security and the first for any State Bank in the nation. The Bank also won multiple awards both locally and globally with a prestigious ranking of being the 400th Largest Bank in Asia as per the Asian Banker Magazine and included in the World's Top 1000 Banks by the Banker Magazine (UK). Locally, People's Bank was crowned "Country's Best Bank in 2017" at the National Business Excellence Awards and was recognised as the second most valuable Sri Lankan brand by the global brand consulting agency, Inter-Brand. For the 11th consecutive year, the Bank was conferred the exclusive "People's Service Brand of the Year" and "People's Banking Service Provider of the Year" Awards at the SLIM-Nielson People's Awards in 2017.

## 2018 >>>

Consolidated total operating income reached an industry high of LKR 94.5 billion recording a YoY growth of 22%. Customer deposits grew by 14.5% on a consolidated basis to reach LKR 1.495 trillion whilst consolidated customer advances grew by 23.8% to LKR 1.416 trillion. During the year under review, the Bank was the lead financier in some of the large scale private sector infrastructure development projects. Most notable among them is the LKR 10.9 billion syndicated loan facility extended to Hayley's for the acquisition of Singer Sri Lanka-which is the single largest transaction of a listed company in Sri Lanka in recent times.

Further reinforcing the Bank's dominance in the digital space, six alternative digital channels were launched during 2018 for the benefit and ease of our customers namely People's Wave-mobile banking app, People's Web-internet banking portal, People's Wiz-express banking, People's Wyn-internet banking and mobile app for corporate clients, RLOS-Retail Loan Origination System and CLOS-Corporate Loan Origination System. Among the many finance apps in the country, People's wave has become the most downloaded finance app in Sri Lanka gaining an impressive 4.7 rating on Google play and is now regularly used by over 300,000 customers across the country

People's Bank continued to receive recognition on various local and global platforms. For the 12th consecutive year, the Bank was awarded the "People's Banking Service Provider of the Year" and the "People's Service Brand of the Year" awards at the SLIM-Nielson People's Awards in 2018. The Bank also secured the top spot as "The Bank of the Year for Excellence in Customer Convenience" at the LankaPay Technnovation Awards 2018. Further, at the National Business Excellence Awards 2018, People's Bank won the "Excellence in Local Market Reach" Award

On the global level, the Bank was once again ranked amongst the Top 1000 Banks in the World by the Banker Magazine, UK and adjudged "The Best Bank in Sri Lanka" at the European Global Banking and Finance Awards 2018. Further, as a testament to our relentless commitment to excellence in digitalization, People's Bank clinched the "Best Branch Digitization Initiative Program Award" in Asia Pacific Region at the Asian Banker Business Achievement Awards 2018 for Financial Technology Innovation.

## CHAIRMAN'S MESSAGE



Despite the challenges emanating from the macroeconomic environment, the Bank's core aspiration remains unchanged. We want to remain as the most successful Commercial Bank in Sri Lanka



**GRI 102-23**

On behalf of the Board of Directors, it gives me great pleasure to present to you the People's Bank Annual Report for the year 2018. As it has been the practice over the last 4 years, the 2018 report has been prepared in accordance with the GRI principles in an integrated format for the benefit of all our stakeholders.

**GLOBAL ECONOMY**

2018 was quite a challenging year on many fronts marked by weak economic conditions both globally and locally. The Global Economy started 2018 on an upbeat note, with the recovery in 2017 originally expected to gather further momentum as the year progressed. In reality the momentum soon fizzled amidst a softening of global trade and investments and escalating trade tensions amongst key economies. This unfavourable backdrop did not bode well, with most advanced and emerging economies managing to record only moderate growth at best, with the only exception being the United States where growth remained solid throughout 2018.

**THE SRI LANKAN ECONOMY**

Softening global trade and investment increased the downside risk for many emerging economies including for Sri Lanka. Alongside this, the local economy had to contend with several other challenges as well. Plagued by extreme weather conditions for two consecutive years, economic activity remained subdued, which resulted in a modest 3.1% GDP growth during 2018. Moreover the deficit in the external current account widened amidst a higher import bill, whilst the Rupee came under heavy pressure reflecting the ultimate effects of the global financial market conditions. On a positive note however, inflation stabilized in the mid to low-single digit levels thanks mainly to low food inflation.

Meanwhile the government continued with its widespread economic reform policy agenda, albeit at a slower pace due to a complex political environment and some institutional constraints on policy implementation. Nonetheless, I am happy to note that several key milestones were achieved in terms of policy reform that will no doubt result in a more disciplined approach towards economic development.

**PEOPLE'S BANK'S STRATEGY**

The despite the challenges emanating from the macroeconomic environment, the Bank's core aspiration remains unchanged. We want to remain as the most successful Commercial Bank in Sri Lanka. To achieve this objective we continued to purposefully and very diligently work towards improving all aspects of our business operations with our ultimate success being measured by the value created for the benefit of our multiple stakeholders

I take this opportunity to give you an overview of our 2018 results.

**FINANCIAL RESULTS**

People's Bank's consolidated total operating income expanded by 22.0% reaching an industry high of LKR 94.5 billion. Consolidated post tax profits registered an increase of 4.8% year-on-year setting another industry benchmark of LKR 21.5 billion for the year 2018. On a Bank standalone basis, these were LKR 74.6 billion and LKR 17.1 billion, respectively. Reflecting macro-economic stresses, consolidated

impairment charges rose 189.2% to reach LKR 8.8 billion. On a standalone basis, the Bank's impairment cost for 2018 was LKR 7.3 billion, up 443% from LKR 1.3 billion in 2017.

Customer deposits grew by 14.5% on a consolidated basis to reach LKR 1,495 billion whilst consolidated customer advances grew by 23.8% to reach LKR 1,416 billion. From a Group perspective, gross non-performing loans, as function of total gross loans, edged up to reach 2.7% as compared with 2.03% at end 2017, while at a Bank standalone basis, it was 2.48% up from 1.87% at end 2017 but yet below the industry average.

**CAPITAL MANAGEMENT AND FUNDING**

Following the announcement of the Basel III Capital Adequacy Framework in late 2017, throughout 2018 we focused extensively on strengthening our capital and funding positions led by disciplined organic growth. As a testament to these efforts, the Group CAR stood at 14.48% as at 31st December 2018, above the minimum requirements under the BASEL III framework.

At the same time the Bank continued to maintain conservative Balance Sheet settings, with a considerable portion of the Bank's lending growth funded by the higher volume of deposits mobilized from customers.

**CUSTOMER SATISFACTION**

We believe that serving our customers and keeping them happy is what will ultimately ensure our business remains sustainable over the longer term. Premised on this, we have continued to invest in dynamic products, services and delivery channels with innovative product offerings and customized solutions which every customer comes to expect from People's Bank.

Customer satisfaction is one of the core metrics we use to measure our success as a truly "People's Bank". In this context, I am happy to report that we have continued to maintain a high standard of customer service across all key business segments. While these are all real achievements, we remain fully aware that customer expectations will continue to rise and evolve, and we are not complacent in our effort to constantly and very diligently keep raising our standards and maintaining our focus to ensure every customer is fully satisfied with the Bank at all times.

**INNOVATION**

This is yet another key area of focus. With an objective of being the industry leader for innovation, we have in recent years increased our investment in digital technology, which has helped us innovate most of our products and services purposefully for the ease of all our customers. This has enabled the Bank to provide an unparalleled digitally enabled service including through our industry-leading People's Wave app, which is now regularly used by over 300,000 customers across Sri Lanka. We have been able to further reinforce our dominance in the digital space thanks to our ongoing investments in Self Banking Units. Equipped to carry out nearly 80% of the routine over-the-counter transactions, these Self Banking Units are redefining the concept of customer convenience as we know it.

## CHAIRMAN'S MESSAGE

### GOVERNANCE

Our approach to corporate governance extends beyond compliance. In fact we see governance as an enabler that creates competitive advantage through enhanced accountability, effective risk management, clear performance management, greater transparency and effective leadership. The Bank's corporate governance framework is structured to promote cohesive strategic decision making that combines long and short-term outcomes to reconcile the interests of the Bank and its stakeholders. Hand-in-hand with our governance framework, the Bank's core values guide and motivate our Board and executive leaders to nurture a strong culture that drives our people to deliver industry leading results on all fronts.

### AWARDS

People's Bank continued to receive recognition on various local and global platforms, which I believe testifies to our relentless commitment to excellence in all aspects of our business. At the SLIM Nielsen People's Awards 2018, the Bank was awarded the coveted People's Banking Service Provider of the year as well as the People's Service Brand of the Year. The Bank was also ranked amongst the top 1000 in the World by the Banker Magazine UK, and was adjudged the Best Bank in Sri Lanka at the European Global Banking and Finance Awards 2018. At the National Business Excellence Award 2018, we won the Excellence in Local Market Reach.

Meanwhile at the Asian Banker Business Achievement Awards for Financial Technology innovation 2018, the Bank clinched the Best Branch Digitalization Initiative Program Award in Asia Pacific Region, and secured the top spot as the Bank of the Year for Excellence in Customer Convenience at the LankaPay Technovation Award 2018

### PLANNING FOR THE LONG-TERM

It is inevitable that macroeconomic factors, increased competition and regulation will affect our business prospects in the years ahead. Regardless, we will remain committed to thinking long-term, through continued investment in our long term strategy.

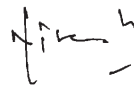
Accordingly, while strategically growing our market share, we will seek to remain the market leader in customer satisfaction across all our customer segments. At the same time we will continue to strengthen the Bank's significant technology advantage through ongoing investments, while continually reinforcing our balance sheet. We believe that building on these strengths, will help make People's Bank continue to remain as the most resilient, strong and successful Bank in Sri Lanka.

“  
**Our approach to Corporate Governance extends beyond compliance. In fact we see governance as an enabler that creates competitive advantage through enhanced accountability, effective risk management, clear performance management, greater transparency and effective leadership**  
”

### APPRECIATIONS

As I conclude my statement, I wish to express my sincere appreciation to the Honorable Minister Mr. Mangala Samaraweera and the Honorable State Minister Mr. Eran Wickramaratne, for their unconditional support at all times. My sincere gratitude also goes to the officials at the Central Bank of Sri Lanka for their guidance on all matters of a regulatory nature.

I take this opportunity to thank my colleagues on the Board for their wise counsel and also wish to express my appreciation to Mr. Vasantha Kumar, our dynamic CEO / GM, the Management team and the Employees at all levels for their dedication and commitment towards the Bank. Finally, I thank all People's Bank customers and other stakeholders for their confidence and trust in our Bank. Your long-standing support is a great source of inspiration to keep moving us forward and upward in the years ahead.



**Nissanka Nanayakkara**  
Chairman

28th March 2019

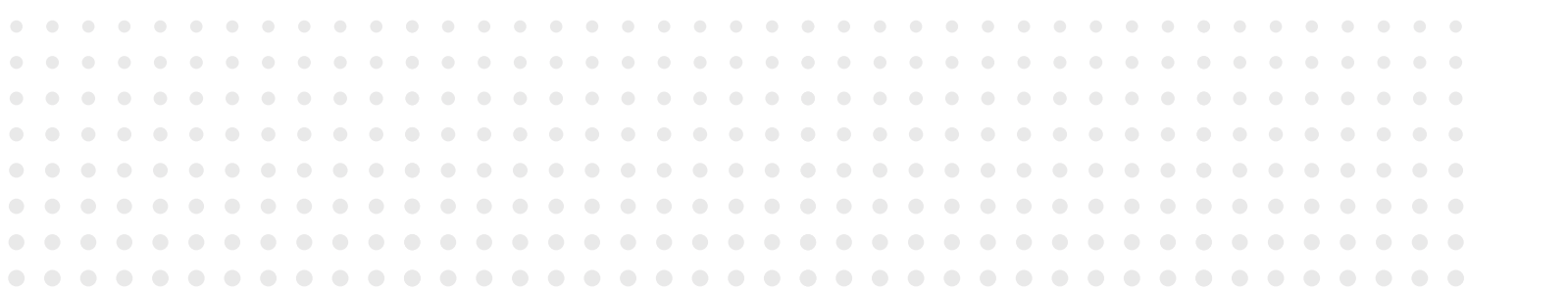
## CHIEF EXECUTIVE OFFICER / GENERAL MANAGER'S REVIEW



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With the work done in the recent past providing the momentum, we were able to make major strides in our efforts to position People's Bank as the most digitalized Bank in Sri Lanka

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## CHIEF EXECUTIVE OFFICER / GENERAL MANAGER'S REVIEW

### GRI 102-14

The year 2018 was a challenging one, with most global economies with the exception of the US, seeing only limited growth. Similarly, Sri Lanka's economy also faced tough times with GDP growth falling short of projections. However, undeterred by these challenges, we worked purposefully to deliver what is expected of People's Bank in its capacity as the country's leading commercial bank.

### CONTRIBUTING TO SRI LANKA'S ECONOMIC DEVELOPMENT

Over the last 57 years, we at People's Bank have remained firmly committed to supporting the country's development, which we see as one of our foremost responsibilities as a State Bank. Since the inception we have systematically built the industry's largest footprint of 738 branches across the island, which has enabled the Bank to serve the full gamut of retail customers of varying demographic and socio economic profiles and to meet their diverse requirements. This I believe has been critical to the Bank's success thus far. In 2018, we continued to leverage on our extensive branch network to drive our retail banking franchise, with equal emphasis being placed on new customer acquisition as well as retention of those existing. On the lending front, the product portfolio was further diversified with several new products being launched to give customers the opportunity to achieve their life ambitions, while aggressive deposit mobilization activities were also carried out with aim of helping them secure their financial future. I am pleased to announce that thanks to these measures our retail customer base has grown by over 500,000 during the year 2018, which also points towards the outstanding trust which exists in the People's Bank brand.

Further we have always considered it our duty to promote financial inclusion and have placed equal importance on developing retail customers as well as supporting business enterprises of varying nature and scale. During 2018, we worked towards further promoting initiatives such as the SMED (Small and Medium Enterprise Development) loan scheme under the Enterprise Sri Lanka programme, the Commercial Scale Dairy Development Loan Scheme, the Small and Medium Scale Line of Credit program as well as the People's Bank's own Jaya Isura loan scheme. Nonetheless given the weak economic conditions, we were compelled to maintain a measured lending strategy in order to preserve loan quality, which I am pleased to say has yielded positive results.

In light of the challenging economic circumstances, we focus in also supporting our existing DB and MF customers to improve their repayment capacity. In this context, we expedited our financial literacy program series to assist existing customers and encouraged them to continue to service their loans which would enable them to maintain their creditworthiness over the longer term.

In our Enterprise Banking arm we focused mainly on servicing the needs of the trade and export industries, which appeared to be the key sectors fueling the country's economic growth during 2018. To increase our penetration in these sectors, we engaged in extensive promotional activities and also made widespread changes to our internal processes in order to enhance service delivery to the customer.

Meanwhile our Corporate Banking arm while continuing to extend support towards SEOs, we made good progress in supporting some large scale private sector infrastructure development projects by taking on the role of lead financier in most cases. Most notable amongst them is the LKR 10.9 billion syndicated loan facility extended to Hayleys' for the acquisition of Singer Sri Lanka - which is the single largest transaction of a listed company in the country in recent times. We also signed up as the main funding partner for Laughs Terminal Limited contributing over 80% of the funding requirement for the construction of the gas storage terminal in the Hambantota Port. Upon completion in September 2019, the Terminal is expected to be positioned as a key regional player providing services to India, Bangladesh, Myanmar and the African continent.

People's Bank was also part of the syndicated loan extended towards Sri Lanka's first-ever waste-to-energy project which was undertaken by the Aitken Spence Group. Here again we were the lead financier, contributing LKR 9.0 billion of the total LKR 13.0 billion funding requirement.

### A RESILIENT FINANCIAL PERFORMANCE

During 2018, the Bank's consolidated total operating income expanded by 22.0% to reach LKR 94.5 billion with consolidated after tax profits registered an increase of 4.8% to reach LKR 21.5 billion - both new industry benchmarks for the year. On a Bank standalone basis, these were LKR 74.6 billion and LKR 17.1 billion, respectively.

Reflecting macro-economic stresses and higher non performing advances, consolidated impairment charges rose by 189.2% during the year to reach LKR 8.8 billion. On a Bank standalone basis, the cost for 2018 was LKR 7.3 billion, up 442.7% from LKR 1.3 billion in 2017. Consolidated operating expenses grew by 21.2% to reach LKR 45.1 billion which, in notable part, reflecting the increase in personnel costs which stemmed from a routine, once in every three year, salary revision.

Return on assets (before tax) on a consolidated basis was 1.77% in 2018 down from 1.95% in 2017 reflecting the pressure on profit growth stemming also from higher impairment lost - as seen also throughout the industry. Total consolidated contribution made to the Government in the form of taxes, special levy and dividends during 2018 totaled LKR 24.1 billion (2017: LKR 23.3 billion).

Customer deposits grew by 14.5% on a consolidated basis to reach LKR 1,495 billion whilst consolidated customer advances grew by 23.8% to LKR 1,416 billion. From a Group perspective, gross non-performing loans as function of total gross loans edged up to 2.7% as compared with 2.03% at end-2017. On a Bank standalone basis, it was 2.49% up from 1.87% at end 2017.

Consolidated Tier I and Total Capital Adequacy Levels were 11.66% and 14.48%, respectively at end-2018 (end 2017 11.49% and 13.71%, respectively). On a Bank standalone basis, these were 11.02% and 14.47%, respectively (end 2017: 10.82% and 13.51%)

### LEADING SRI LANKA'S DIGITAL BANKING TRANSFORMATION

With the work done in the recent past providing the momentum, we were able to make major strides in our effort to position People's Bank as the most digitalized bank in Sri Lanka. Expediting the roll out of our fully automated self banking units, we commissioned 108 new SBUs during the year, bringing the total to 210 as at 31st December 2018. A total of 108 new express banking centers were also installed within the year. Moving onto the next phase of the Bank's digital road map, we unveiled People's Bank first fully digital branch in June 2017, followed by the launch of People's Web in May 2018 and the People's Wave mobile banking app in March 2018.

In parallel, we commenced testing to determine the end-point functional capability of our new core banking system to host new digital applications, which paved the way for the launch of the People's Wiz, a proactive customer on-boarding tool. Designed to seamlessly integrate all relevant functions, People's Wiz enables the on-boarding process to be completed in under 10 minutes, undoubtedly yet another industry-first.

While giving People's Bank a definite edge over peers, I believe these efforts, more importantly, puts us firmly on track to lead Sri Lanka's digital banking transformation over the longer term.

### AN EXEMPLARY RISK STEWARD

While we have always remained proactive in our risk management activities, in 2018 we felt it was important to further strengthen our credit risk protocols to prevent a deterioration in our portfolio quality especially with the growing economic uncertainty bringing pressure on our micro finance and development banking customers. Consequently an independent Post Grant Credit Review Unit was set up with a direct reporting line to the Board of Directors. The unit was tasked with handling post review activities for existing facilities with a view to strengthening credit quality of the portfolio.

Moreover with large parts of Bank's business model being affected by the digital transformation strategy, we revisited our IT risk management framework. We invested in a dedicated Security Operating System to strengthen Bank's capacity to safeguard customer privacy through advanced industry-based architecture and also undertook additional improvements to our cyber security framework as part of the renewal process for the ISO 27001 Information Security Management standards certification. Furthermore, in line with the new CBSL baseline cyber security standards, the management of IT risk was brought under the purview of a dedicated Information Security Officer, who reports directly to the Chief Risk Officer.

### A VALUED EMPLOYER

Being a service organization, we readily acknowledge that our employees are our greatest asset. Our commitment to our employees is therefore unequivocal. We strive to ensure that our people are enthusiastic about the work they do and remain motivated enough to continue to perform the duties and responsibilities that come with their job. Simply put, we want our people to feel valued and take pride in being an employee of People's Bank.

Stemming from this, we have continued work diligently to enhance our employee experience and in 2018 focused on strengthening all aspects of our employee value proposition.

Stemming from the Bank's digital transformation strategy, a culture shaping initiative was launched in mid-2018 with the aim of reinforcing the service culture at all levels within the Bank. Project champions were appointed to realign the strategic focus of all our business units in our effort to create a dynamic service culture. A series of training programs were also conducted aimed at the senior management across the branch network followed by knowledge sharing sessions and mentoring for middle management and executives.

### PRIORITIES FOR THE FUTURE

Going forward, we want to continue to live up to the People's Bank legacy of being a bank that serves the people with our overarching priority continuing to be to create exceptional customer experiences. Increasingly we will look to building a simpler, more focused bank, underpinned by stronger risk management with a continuing commitment to innovate be product wise or service delivery wise.

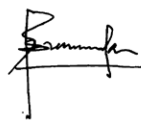
Case in point, we want to be able to create end-to-end customer journeys that will reinforce People's Bank as the most trusted bank in Sri Lanka today, tomorrow and in the future.

### APPRECIATIONS

I would like to express my thanks to our Chairman and Members of the Board of Directors for their unstinted support extended to me at all times. I also take this opportunity to thank the Management and all Employees of the Bank, for their loyalty and dedication towards delivering results year after year even during challenging circumstances.

My grateful thanks to the officials at the Ministry of Public Enterprise Development, the Government Treasury and the Central Bank of Sri Lanka for their counsel and guidance at all times.

In closing, I wish to thank our valued customers, and all other stakeholders of People's Bank, for the trust and confidence placed in the Bank and I request your invaluable support in the years ahead as well.



**N. Vasantha Kumar**  
*Chief Executive Officer/General Manager*

28th March 2019

# ACCESIBILITY WHEREVER YOU ARE

Our mobile app is not only one of the most downloaded apps in a short period of time but provides the ease of use that you deserve as a customer of People's Bank.







## BOARD OF DIRECTORS



Left to Right:   
Mr. Hemasiri Fernando – Director, Mr. K.D.N. Ranjith Asoka – Director, Mr. Nissanka Nanayakkara – Chairman



Left to Right: >>>

Dr. Aminda M. Perera – Director, Mr. A. M. P. M. B. Atapattu – Director, Mr. Nilanka Mevan Pieris – Director



## BOARD OF DIRECTORS

GRI 102-22, 102-23

### MR. K. A. D. N. NANAYAKKARA Chairman

Mr. Nissanka Nanayakkara is a President's Counsel and functions as the Legal Secretary of the United National Party as well as a member of its Working Committee.

Earlier, he has served as Chairman of Litro Gas Lanka Limited

### MR. HEMASIRI FERNANDO Director

Having been graduated from the University of Colombo in the main stream of Economics, joined the Sri Lanka Navy as a Volunteer which made him three times National Champion in Rifle Shooting and winner of a diploma at the Asian Games in 1982.

Entered the public sector as Secretary to the Prime Minister in 1994, he also functioned as Chairman of several state institutions such as Sri Lanka Telecom, Airport & Aviation and Independent Television Network, where he excelled very well. Presently, he is the Chairman of the Board of Investments of Sri Lanka and also the Secretary to the Ministry of Defence.

He was the country's longest serving Olympic Committee President and remaining as the first Asian to hold two positions as Vice President of the Commonwealth Games Federation (CGF) and the Olympic Council of Asia (OCA) respectively.

An author of three specialised books on the Sri Lanka Railways, he currently functions as the Chairman of the National Railway Museum Committee.

Twice appointed as Advisor to His Excellency the President of Sri Lanka, he is also the Honorary Consul of the Kyrgyz Republic in Sri Lanka.

### DR. AMINDA M. PERERA Director

Dr. Aminda Methsila Perera is a Senior Lecturer in Financial Management at the Department of Accountancy, Wayamba University of Sri Lanka. He had his early education at St. Thomas' College, Matale and he pursued higher studies at the Faculty of Management Studies and Commerce, University of Sri Jayewardenepura and has obtained a B.Sc. (Special) Degree in Public Administration.

Dr. Perera has obtained his first Master's Degree in Business Administration in the field of International Finance from IGNOU India and a second Master's Degree in Business Administration in the field of marketing from the Wayamba University of Sri Lanka. He completed his PhD on consumer behaviour at the same university. He has also followed a Diploma Program in NGO Staff Management, conducted by the Klasnoff Academy, Germany in 1998. He has also completed a PhD in Business Administration at KESEI University of Korea.

During his career, Dr. Perera has served in a number of private and state organizations in different capacities. Currently he serves as a Director at the Civil Aviation Authority, the National Library and Documentation Board and Pride of Ceylon (Pvt.) Limited. In addition, he is the Sri Lankan representative of AKSAP International of Australia.

Dr. Perera was appointed to the Board of Directors of People's Bank with effect from 2nd November 2015.

### MR. K.D.N. RANJITH ASOKA Director

Mr. Ranjith Asoka is presently working as the Secretary of the Ministry of Industry and commerce. He is a senior member of Sri Lanka Administrative Service (SLAS). Before joining as a Board member of the People's Bank, he has served as a Director of the DFCC Bank Board of Management in Sri Lanka as the representative of the General Treasury.

During his long period of service, he has also held several executive positions in the public sector. He has served as the Director General of the Department of Public Enterprises, Director General of Department of Trade and Investment Policy of the Ministry of Finance, Additional Secretary to the Ministry of Vocational Training and Skills Development, Additional Secretary for Ministry of Education, Director General of the Department of Manpower and Employment, Assistant Director to the Fiscal Policy and Economic Affairs, Divisional Secretary to the Medagama Divisional Secretariat in Matara District, Divisional Secretary of Imbulpe Divisional Secretariat in Ratnapura District.

Mr. Ranjith Asoka holds a B Com (sp.) from the University of Colombo. He also holds Postgraduate Diplomas in Economic Development, in Devolution and Local Government Studies from the University of Colombo, an MBA in HRM from the postgraduate Institute of Management (PIM) and a Master's in Economics (MSC) from the Yokohama National University of Japan.

He has served as a Senior Consultant in HRM at the Sri Lanka Institute of Development Administrative (SLIDA).

Mr. Ranjith Asoka was appointed to the Board of Directors of People's Bank in November 2017.

**MR. NILANKA MEVAN PIERIS**  
Director

Mr. Pieris is a Finance Professional with over 20 years of diverse experience in areas of Financial Planning & Control, Financial Auditing, Credit Operations & Management, Business Development & Analysis, Information Technology, Project Management and Logistics Operations.

He is a Fellow Member of the Sri Lanka Institute of Credit Management, an Associate Member of the Institute of Bankers (Sri Lanka), an Associate Member of the Chartered Institute of Management Accountants and a Chartered Global Management Accountant.

Mr. Pieris was appointed to the Board of Peoples Bank as an Independent Non Executive Director in February 2019 and is a member of the Audit and Risk Committees. He is also an Independent Non Executive Director of Arpico Finance Company PLC and serves as the Chairman of the Audit and Related Party Transactions Committees. In addition to his appointments in the Banking and Non Banking Financial sector he is the Managing Director of Gensoft (Pvt.) Ltd which is the largest software development company for the logistics industry in Sri Lanka and the Maldives.

He also serves on the council of the Sri Lanka Institute of Credit Management and presently functions as the Assistant Treasurer of the Singhalese Sports Club.

**MR. A.M.P.M.B. ATTAPATTU**  
Director

Mr. A. M. P. M. B. Atapattu currently serves as the Deputy Secretary to the Treasury, Ministry of Finance and he has over 25 years of work experience in Banking, Finance and Business Administration.

He Graduated from University of Sri Jayawardenapura with a B. Sc. in Management (Public Administration), second class upper Division Degree and he holds a Masters Degree in International Development from Flinders University, Australia and has completed two post graduate diplomas: Economic Development from University of Colombo and Development Economy from Institute of Development Economies, Japan.

He holds a Licentiate Certificate of the Institute of Chartered Accountants, Sri Lanka and worked as a Director of Department of National Planning, Department of Development Finance and Department of External Resources in the Ministry Of Finance.

Mr. Atapattu has functioned as Deputy Project Director of the Small and Medium Enterprise Regional Development Project (SMERDP) funded by the Asian Development Bank, Deputy Project Director of the Small and Medium Enterprise Development Facility Project (SMEDeF) funded by the World Bank and Project Director of the Small and Medium Enterprises Line of Credit (SMELoC) funded by the Asian Development Bank. Further, he has executed the SME Development Programme funded by the German International Cooperation (GIZ) as well as the Rooftop Solar Power Generation Line Of Credit Project (RSPGLoC). At the present, Mr. Atapattu is in charge of the "Enterprise Sri Lanka Loan Scheme" of the Government.

His Research / Thesis was 'Rationalization for Industrial Development in Sri Lanka' for his Master's Degree in International Development awarded by Flinders University in 2004. Mr. Atapattu has also performed his duties as the Treasury Representative of the Sri Lanka Tea Board, the National Lotteries Board and the Insurance Regulatory Commission of Sri Lanka.

## CORPORATE MANAGEMENT



Left to Right: >>>

- Mrs. P. S. J. Kurukulasooriya** - Deputy General Manager - Retail Banking,
- Mr. R. Kodituwakku** - Deputy General Manager - Commercial Banking & Digitalization,
- Mrs. Aruni Goonetilleke** - Head Of Corporate Banking,
- Mr. P. S. A. Edirisinghe** - Head of Information Technology
- Mrs. G. P. R. Jayasinghe** - Deputy General Manager - Process Management & Quality Assurance,
- Mr. P. R. S. Jayatissa** - Deputy General Manager - Human Resources,
- Mrs. C. Werapitiya** - Senior Deputy General Manager - Strategic Planning, Performance Management & Research,
- Mr. G. Lionel** - Deputy General Manager - Channel Management,
- Mr. M. A. B. Silva** - Senior Deputy General Manager - Banking Operations,
- Mr. B. M. Premanath** - Deputy General Manager - Banking Support Services,
- Mr. N. Vasantha Kumar** - CEO/ General Manager



Left to Right: >>>

- Mr. G. B. R. P. Gunawardana** - CEO/General Manager - Designate
- Mr. K. B. Rajapakse** - Senior Deputy General Manager - Retail Banking
- Mrs. S. Prathapasinghe** - Deputy General Manager - International Banking
- Mr. R. Pathirage** - Senior Deputy General Manager - HR & Legal/Secretary to the Board
- Mr. Clive Fonseka** - Head of Treasury & Investment Banking
- Mrs. V. K. Narangoda** - Deputy General Manager - Enterprise Banking
- Mr. Azzam A. Ahamat** - Head of Finance
- Mr. S. Wanniarachchi** - Deputy General Manager - Recoveries
- Mrs. G. M. R. P. Wijerathna** - Deputy General Manager - Risk Management
- Mrs. N. R. Wijayarathne** - Acting Deputy General Manager - Transaction Banking & Financial Institutions
- Mr. E. A. D. J. Priyashantha** - Chief Internal Auditor
- Mrs. M. A. D. Muditha Karunaratne** - Additional Chief Law Officer

## CORPORATE MANAGEMENT

**MR. N. VASANTHA KUMAR**  
 Chief Executive Officer / General Manager

Mr. N. Vasantha Kumar holds a Master's Degree in Business Administration and Diploma in Professional Treasury Management. He joined People's Bank in March 2001, prior to which he served as Treasurer at ANZ Grindlays Bank, Colombo for many years.

He is a Director of People's Merchant Finance PLC, People's Travels (Pvt) Ltd., People's Insurance Ltd., People's Property Development Ltd., People's Leasing Havelock Property Ltd, Credit Information Bureau and the National Payment Council, Lanka Financial Services Bureau Ltd and Lanka Alliance Finance Ltd - Bangladesh. He is a member of the Governing Board of the Institute of Bankers of Sri Lanka.

He is a Past President of the Association of Primary Dealers and Sri Lanka Forex Association.

**MR. G. B. R. P. GUNAWARDANA**  
 Chief Executive Officer / General Manager - Designate  
 Senior Deputy General Manager - Business Banking

Mr. Gunawardana has over four decades serving both private and public sector institutions - of which over three decades' in Banking & Financial services.

He joined People's Bank in 1987 and has served in multiple functional areas in varying capacities covering different aspects of Finance, Performance Management, Corporate & Commercial Credit, Treasury Operations, Credit Control and Risk Management. He has over 10 years experience in Corporate and Executive Management positions in the Bank and was its Chief Risk Officer during 2012 to 2017 where he played a key role in shaping the Bank's overall Risk Management Framework and more notably helping it navigate through the 2012/2013 pawning crises.

In his current role as Senior Deputy General Manager (Business Banking), he oversees the Bank's corporate and enterprise loan book - which includes state owned enterprises and small and medium scale loans - which collectively accounts for over 50% of the Bank's overall loan book.

Mr. Gunawardana is designated to take over as the Bank's Chief Executive Officer/ General Manager with effect from April 15, 2019. He currently serves as a Board Member at People's Leasing & Finance PLC, People's Leasing Fleet Management Limited and Lankan Alliance Finance Limited (Bangladesh).

Prior to joining People's Bank, Mr. Gunawardana served also in the private sector gaining a broad exposure in tourism, plantation and construction sectors.

He has been a Member of the Chartered Institute of Management Accountants (UK) since 1985.

**MR. K. B. RAJAPAKSE**  
 Senior Deputy General Manager – Retail Banking

Mr. Rajapakse is Senior Deputy General Manager to the Retail Banking, Process Management and Quality Assurance and Digitalization of the Bank. He joined the bank in 1987 as a Management Trainee and counts 31 years of experience in the People's Bank.

He holds a Second Class Honours Degree (B.Sc.) in Public Administration, Fellow of the Institute of Bankers of Sri Lanka, Attorney-at-Law of Sri Lanka, Diploma of Institute of Credit Management of Sri Lanka and Post Graduate Diploma of Management and IT at University of Kelaniya.

He has gained wide experience in various management level capacities in branch network of the bank and Corporate Banking Division and at present serves as Senior Deputy General Manager (Retail Banking) of the Bank.

Mr. Rajapakse serves as a member of the Governing Board of Institute of Bankers of Sri Lanka, an Alternate Director of the Credit Information Bureau of Sri Lanka, Director of Regional Development Bank and Director of Agricultural and Agrarian Insurance Board and also vice president of the Association of Professional Bankers of Sri Lanka.

**MR. M. A. BONNIFACE SILVA**  
 Senior Deputy General Manager – Banking Operations

Mr. Silva joined the bank in 1987 and counts over 30 years of experience and deep-rooted knowledge in banking operations.

Being the Senior Deputy General Manager – Banking Operations, Mr. Silva oversees the functions of 04 main divisions preside over by separate heads responsible for the activities of Channel Management division, the regulatory unit of the branch network of 737 and 500-plus supplementary network composed of ATMs, CDMs and Kiosks, Marketing and Research, Information Technology and Support Services division.

Mr. Silva's career experience encompasses managing branch business banking at all levels starting from Branch Manager, to Regional Manager, to Zonal Assistant General Manager, to Deputy General Manager and his present functions as the Senior Deputy General Manager – Banking Operations.

With extensive local and international training / exposure on the subject matter of his specialty, Mr. Silva is a Degree holder (B.A) from the University of Peradeniya and has a professional banking qualification AIB - Sri Lanka. He is also an Associate Member of the Institute of Bankers of Sri Lanka.



**MS. CHANDANI WERAPITIYA**

Senior Deputy General Manager-Strategic Planning, Performance Management & Research

An accomplished banker, Ms. Chandani Werapitiya has tons of energy and truly has a passion for banking. Whether it is taking the lead on improving the bank's performance or spearheading the strategic path, she continues to inspire her colleagues as well as the subordinates with a relentless focus on very effectively actionable plans and bottom-line results in her new role as Senior Deputy General Manager, Strategic Planning, Performance Management and Research.

She holds a B.Sc. in Business Administration (Hons.) with a Second Class Upper and a M.Sc. (Management) from the University of Sri Jayewardenepura.

She joined to the Bank in June 1987 as a Management Trainee and she has been working in the bank for nearly 32 years in a wide spectrum of fields ranging from branch operations, internal audit, recoveries, credit, international banking and corporate banking together with an unblemished track record in strategic leadership positions, she is well suited for this key role that requires a deep and broad understanding of banking and strategic business management. She has been appointed to revamp the research activities of the Bank in order to streamline research and strategic planning activities. She guides staff to be a researcher while developing in house research team and actively implementing for Strategic Plan. She has finalized policy papers pioneering the Senior Management Cadre Assessment, Strategic Planning procedure manual, Research Manual for the bank and journal articles/concept papers relating to various topics. As a professional banker she contributes to the banking industry as Researcher, Lecturer, Presenter, and Publisher. She contributed as a global speaker including in Asian Banking/Business Forums on Volatile, Uncertain, Complex and Ambiguous (VUCA) world and Sustainable Energy Programmes.

She is an Alternate director to the Governing Board and a fellow member of the Institute of Bankers' of Sri Lanka (IBSL) and a Member of the Women's Chamber of Industry and Commerce (WCIC). She was a former Deputy Chairperson of the International Chamber of Commerce of Sri Lanka (ICCSL) and was a Director of the Regional Development Bank (RDB) and was a Board Member of the Interim Committee of the Sri Lanka Handicraft Board (SLHB).

**MR. ROHAN PATHIRAGE**

Senior Deputy General Manager – Human Resource & Legal / Secretary to the Board Of Directors

Mr. Pathirage joined People's Bank in 1995. He counts for over 24 years experience across Human Resources, Legal and Administration relating to the Bank's Board of Directors and its Chairman's Office

An Attorney-at-Law, Mr Pathirage holds a Law Degree from the University of Colombo and is a Masters Degree holder in Bank Management from the Massey University, New Zealand since 2003. He is also a holder of a Postgraduate Diploma in Banking.

In his current role, he oversees the Bank's 10,000 plus strong work force and manages its Senior Executive recruitments in line with its HR requirements. In addition, he also leads the Bank's 70 member legal team. He benefits from over 10 years in Corporate and Executive Management positions

Previously as Deputy General Manager - Secretary to the Board of Directors, a position held from August 2010 up until March 2019, Mr Pathirage provided administrative support to all matters relating to the Bank's Board of Directors and its various sub committees. During his tenure, He has played a key role to facilitate best practices in governance and has contributed towards the establishment of several subsidiaries of the Bank including, People's Leasing & Finance PLC., People's Insurance PLC., People's Property Development Ltd. and People's Micro Commerce Ltd. amongst other

**MS. G. P. R. JAYASINGHE**

Deputy General Manager- Process Management & Quality Assurance

Ms. Renuka Jayasinghe joined the Bank in 1987 as a Management Trainee and counts over 30 years of experience in the field of Banking.

During her career, she has covered the Branch Banking Area at the levels of Branch Manager, Zonal Senior Manager, Regional Manager and Asst. General Manager, Deputy General Manager (Cooperative & Development) and Deputy General Manager (Retail Banking) and worked as a Deputy General Manager (Business Support Services) Presently, she is working as the Deputy General Manager (Process Management & Quality Assurance).

She holds a First Class Special Degree in B.Com from the University of Sri Jayewardenepura and has a professional banking qualification (AIB), Sri Lanka. She is a Life Member of the Association of Professional Bankers of Sri Lanka and the Institute of Bankers of Sri Lanka.

## CORPORATE MANAGEMENT

**MR. CLIVE FONSEKA**  
 Head of Treasury & Investment Banking

Mr. Fonseka is a fellow of the Institute of Bankers of Sri Lanka and holds a Master's Degree in Business Administration from Postgraduate Institute of Management of University of Sri Jaywardenepura. He has received a Distinction for the ACI Dealing Certificate and counts more than 25 years experience in Treasury Management. Furthermore he is a Certified Member (CMA) of the Institute of Certified Management Accountants of Australia.

He joined People's Bank in 2002, prior to which he served at American Express Bank and Standard Chartered Bank. He has been a member of People's Bank's senior corporate management team from November 2011. Presently he acts as the President of the Association of Primary Dealers.

**MR. B. M. PREMANATH**  
 Deputy General Manager – Banking Support Services

Mr. Premanath counts nearly 32 years of service at People's Bank. He joined People's Bank as a Management Trainee. Presently he is in charge of six units covering Supplies, Transport, Security, Maintenance Engineering, Building Engineering and Desk Top Publishing. He has gained vast experience in procurement, construction and maintenance, stores and inventory control, transport and security procedure together with managing Branch Business Banking.

He holds a 2nd Upper Degree in B.Com. from the University of Colombo and AIB - Intermediate Sri Lanka. During his banking career, he has participated in various exposure programmes both locally and internationally.

**MR. LIONEL GALAGEDARA**  
 Deputy General Manager – Channel Management

Mr. Lionel Galagedara is in-charge of Channel Management Department of the Bank. He joined the Bank as a Management Trainee and counts over 31 years of service at the Bank. His variety of experience covers the areas of Channel Management, Retail Banking, Corporate Banking, Project Financing, Credit Administration and Recoveries.

He holds a B.Com. (Special) degree from the University of Sri Jaywardenepura and LLB Degree from the Open University of Sri Lanka. He is also an Associate Member of the Institute of Bankers of Sri Lanka and an Attorney-at-Law.

**MR. P. S. A. EDIRISINGHE**  
 Head of Information Technology

Mr. Edirisinghe joined the Bank on 2nd February 2015 as the Head of Information technology. He holds Bachelor of Commerce (Major in Information Systems) and Master of Commerce from University of Western Sydney, Australia.

Mr. Edirisinghe has been in the field of IT for 27 years spanning various business sectors including Insurance, Banking and Telecommunication. Prior to joining People's Bank, he was attached to Citibank Limited Singapore as Project Management Officer. Throughout his professional career, he has held positions from Analyst Programmer to Chief Information Officer in flagship Companies such as Citibank (Australia, Singapore) AON Limited Australia, clarity International Limited Singapore and Sri Lanka Telecom.

**MR. SUNIL WANNIARACHCHI**  
 Deputy General Manager – Recoveries

Mr. Sunil Wanniarachchi joined People's Bank in 1987 as a Management Trainee and worked in several areas including Branch Banking, SMI Lending, International Banking, Trade Financing and Leasing. He has gained vast experience in lending and Offshore Banking activities.

He holds a B.Sc (Special) Degree from the University of Sri Jaywardenepura and soon after the graduation, he worked there as a Demonstrator and Assistant Lecturer in Chemistry. He obtained his Master's Degree in Business Administration from the University of Colombo. He is an Associate of the Institute of Bankers of Sri Lanka. Recently, he held the positions of President and Senior Vice President in Professional bodies such as Association of the Institute of Bankers of Sri Lanka and Trade Finance Association of Bankers respectively. He is also a member of the Governing Board of Institute of Bankers of Sri Lanka for a period of 03 years effective from 01.02.2017 and also holds the position of member of Audit Committee of IBSL therein. Internally too he holds many positions in the bank such as Chairman of Grievance Handling Committee, Chairman of District Transfer Appeal Committee, Member of Procurement Committee, Member of Price Negotiation Committee, Member of DGMM Evaluation Committee etc.

**MS. S. PRATHAPASINGHE****Deputy General Manager – International Banking**

Mrs. Shobani Prathapasinghe joined the People's Bank in 1990 and has over 28 years of experience. She is an Associate Member of the Chartered Institute of Management Accountants - UK (ACMA/CGMA) and a Fellow Member of the Institute of Certified Management Accountants - Sri Lanka. She also holds a Masters Degree in Business Administration (MBA) from the University of Western Sydney (Australia) and a Masters Degree in Financial Economics (MAFE) from the University of Colombo.

She has gained wide experience in the areas of SME Project financing, Management/Financial Accounting, Management Information, Performance Management, Corporate Banking, Commercial Credit and International Banking.

Prior to joining the People's Bank, she has worked both in the Public and the Private sectors and has gathered experiences mainly in Merchant Banking activities by working at People's Merchant Bank and the Merchant Bank of Sri Lanka Ltd.

**MR. R. KODITUWAKKU****Deputy General Manager – Commercial Banking & Digitalization**

Mr. Ranjith Kodituwakku has over 35 years of banking experience in a wide spectrum of areas. His variety of experience covers the areas of consumer banking, commercial banking, corporate banking, off-shore banking, branch banking, international banking, project financing, recoveries and digitalization.

With extensive local and international training/exposure and having worked in different capacities at different geographical locations, he is currently spearheading two portfolios; commercial banking and digitalization of the bank.

As the Deputy General Manager for the bank's Digitalization initiative, his scope of work encompasses primarily on mapping business requirements to a digital platform by adopting best practices in the industry and re-engineering business processes. He also leads the commercial banking portfolio of the bank.

Mr. Kodituwakku is an MBA holder in Finance from the University of Colombo and is an Associate of the Institute of Bankers of Sri Lanka.

**MS. ARUNI GOONETILLEKE****Head of Corporate Banking**

Aruni Goonetilleke has over 20 years of global experience in Banking and Finance. She is currently the Head of Corporate Banking. Immediately prior to joining People's Bank, she was with Standard Chartered Bank, Singapore in global and regional roles which took her to several countries in Asia, Americas, Middle East and Africa. Prior to that, she was the Chief Risk Officer of Standard Chartered Bank, Sri Lanka. During her career with ANZ Grindlays and Standard Chartered Bank, she has covered several areas in senior roles including Retail, Corporate and SME Banking, Branches, Risk, Audit and Special Asset Management.

She has a Masters in Law from Harvard Law School, USA and a Bachelor of Laws (Honours) from the University of Colombo. She was a Lecturer in Law at the Faculty of Law and Department of Graduate Studies, University of Colombo.

Ms Goonetilleke was a founder member of the Association of Banking Sector Risk Professionals, was an EXCO member of the Women's Chamber of Industry and Commerce and member of the Finance Steering Committee of the Ceylon Chamber of Commerce. She is an associate member of the Singapore Institute of Directors, was on the EXCO of the Harvard Club of Singapore and is currently a Board Director of the Overseas School of Colombo.

**MR. AZZAM A. AHAMAT****Head of Finance**

Mr. Ahamat joined People's Bank on January 3, 2017 and has over 16 years' experience both locally and internationally across strategic financial management, alternate investments and enterprise risk. His prior employers include some of the largest multi-national professional service firms and other tier I service providers across respective market spaces. He is a Fellow Member of the Chartered Institute of Management Accountants (UK), the Association of Chartered Certified Accountants (UK) and the Institute of Certified Management Accountants of Sri Lanka. He is also a member of the Chartered Institute of Securities & Investment (UK), Certified Practising Accountants (AUST.), Institute of Risk Management (UK) and the Chartered Institute of Credit Management (UK).

## CORPORATE MANAGEMENT

**MR. E. A. D. J. PRIYASHANTHA**  
Chief Internal Auditor

Mr. Janitha Priyashantha is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and an Associate Member of IBSL and a Certified Member of the Institute of Certified Management Accountants Australia and holds a BCom Special Degree with a Second Class Upper Division.

He commenced his career at Export Development Board in 1988 and joined the Auditor General's Department as an Audit Examiner in the same year. In 1991 he joined the Government Accountant's Service as an Accountant prior to joining the Bank in 1994 as a Management Trainee. After serving in the branch network for six years, he joined the Internal Audit Department in the year 2000. He has gained wide experience in internal auditing with local and overseas exposures.

**MS. M. A. D. M. KARUNARATHNE**  
Additional Chief Law Officer

Mrs. Muditha Karunaratne is an Attorney-at-Law with over 30 years experience holding a "Post Attorney's Diploma in Banking and Insurance" and was the winner of the Banking Law prize (2007). Soon after passing out as an Attorney-at-Law she joined the Chambers of late Mr. J. E. P. Deraniyagala President's Counsel and thereafter worked as an Assistant to Chief Law Officer & the Company Secretary to the Browns Group of Companies.

She joined People's Bank as an Asst. Law Officer in 1992 and handled legal work in Kalutara and Galle Regions, Head Office - Legal Department and Head of the Land Redemption Department. She was promoted to the position of Senior Law Officer in 2006 and as a Senior Law Officer, supervised the legal work in Legal Department, Head Office and North and North Eastern Provinces.

In 2007 she joined the Petroleum Resources Development Secretariat, the Regulatory Authority of Upstream Oil and Gas Industry in Sri Lanka, which functions under the Ministry as the Director Legal & Land and during this era she served as the Secretary to the Petroleum Resources Development Committee. During her thirty years experience as an Attorney-at-Law she has gained immense exposure by participating in many local and international programmes, events and forums.

**MS. V. K. NARANGODA**  
Deputy General Manager – Enterprise Banking

Ms. Krishani Narangoda joined the People's Bank in 1987 as a Management Trainee and counts over 31 years of service in the Bank.

She covered the areas of Branch Banking, Overseas Customer Services, Off-Shore Banking and Corporate Banking under various management capacities and presently serves as Deputy General Manager and covers the areas of SME, Development Finance and Micro Finance.

She holds an Honours Degree (BSc. Business Administration with Second Class Upper Division) from the University of Sri Jayawardenepura and Master's Degree in Business Studies from the faculty of Graduate Studies, University of Colombo. She also an associate member of Institute of Bankers of Sri Lanka and Institute of Credit Management of Sri Lanka. She obtained an Advance Certificate in Customer Relationship Management from the Post Graduate Institute of Management at University of Sri Jayawardenapura.

During her Banking career she has participated in various Banking / Management programs both locally and internationally. She is the Bank coordinator of the Association of professional Bankers and registered as an examiner of the Institute of Bankers of Sri Lanka.

**MR. P. R. S. JAYATISSA**  
Deputy General Manager – Human Resources

Mr. P.R.S Jayatissa joined the Bank in year 1990 as a management trainee and he counts over 28 years of experience in the Bank, covering the Branch operations in the Branch network and Human Resources aspects. His professional experience, which spans over 18 years specifically in Human Resources with extensive knowledge in Human Resources Administration, includes sound industrial relationship management.

He has been exposed to both international and domestic training programmes with relevance to Human Resources. Mr. Jayatissa is currently overseeing the duties as the Deputy General Manager – Human Resources of the Bank. He holds a Bachelor of Commerce (Special) degree offered by the University of Colombo. He has the Professional Banking qualification AIB- Sri Lanka and associate membership of Institute of Bankers of Sri Lanka. Mr. Jayatissa also possesses an Advanced Diploma in English Language for Administration and Academic purpose from the University of Colombo.

**MS. P. S. J. KURUKULASOORIYA****Deputy General Manager – Retail Banking**

Jayanthi Kurukulasooriya joined the bank, as a Management Trainee in 1994 and counts over 25 years of experience in the banking field. Her experience mainly encompasses in the areas of Branch Banking, Credit, Staff Training, Human Resources Development, Credit Administration and Channel Management. Prior to joining the Bank, she has gained experience as a Senior Assistant Accountant at Road Construction and Development Company.

She holds a B.Sc. Business Administration (special) Degree with a Second class Upper Division (Honours) from the University of Sri Jayawardenepura and Master's Degree in Business Administration (MBA) from the University of Colombo. She holds a Diploma in Human Resource Management (Dip.HRM) as well. She is a Member of AAT Sri Lanka, a Licentiate Member of the Institute of Chartered Accountants (LICA) of SL and a Fellow Member (FIB) of IBSL too.

She was able to enhance Bank's image by winning three Gold Medals at the convocation (1997) of Institute of Bankers of Sri Lanka for obtaining maximum number of Distinctions, completing Examination within two consecutive years and obtaining highest aggregate marks at the Intermediate and Final examinations, which is still an undefeated record.

**MS. G. M. R. P. WIJERATHNA****Deputy General Manager – Risk Management**

Mrs. Roshini Wijerathna is in-charge of Risk Management and Credit Control function of the Bank. She joined the Bank in 1990 as a Management Trainee and counts over 26 years of experience in the Banks Treasury. She deputized the Primary Dealer Unit of the Bank since 2003 and the Treasury later on prior to moving to the area of Risk Management. She holds a Bachelor of Science (Physical Science) with a Second Class Upper from University of Colombo, a Master of Business Administration (in Finance) from University of Colombo and a Diploma in Treasury and Risk Management from IBSL. She has obtained a Distinction for ACI Dealing Certificate – ACI, Financial Markets Association and is an Associate member of Institute of Bankers of Sri Lanka.

She is a past President and Secretary of the Association of Primary Dealers and currently a member of the Sri Lanka Forex Association, Association of Professional Bankers & Association of Banking Sector Risk Professionals.

**MS. N. R. WIJAYARATNE****Acting Deputy General Manager – Transaction Banking & Financial Institutions**

Ms. Nipunika Wijayarathne, Actg. Deputy General Manager – Transaction Banking and Financial Institutions, counts over 28 years of experience in banking, having joined the bank in 1990 as a management trainee. She holds a Bsc. Degree in Agriculture from the University of Peradeniya and a MBA in Finance from the University of Colombo.

She has experience in Trade Services and Correspondent Banking and prior to joining the bank, she has served in the private sector. She is an Associate Member of the Institute of Bankers of Sri Lanka.

## EXECUTIVE MANAGEMENT



Left to Right: >>>

- Mrs. S. W. A. D. S. Kalyani** - Assistant General Manager - Retail Banking
- Mr. H. C. Fernando** - Assistant General Manager - Treasury Back Office
- Mrs. P. R. Madurawala** - Assistant General Manager - Audit
- Mrs. N. C. Mudalige** - Assistant General Manager - Human Resource Development
- Mrs. A. S. Liyanarachchi** - Assistant General Manager - Commercial Credit
- Mrs. K. N. Senaratne** - Assistant General Manager - Credit Unit II- C.B.D
- Mr. T. D. De Z. Gunawardena** - Assistant General Manager - Risk Management
- Mrs. U. S. Gerty** - Assistant General Manager - Credit Review
- Mr. I. D. S. S. Illukkumbura** - Assistant General Manager - Retail Banking
- Mr. A. S. M. V. Kumarasiri** - Assistant General Manager - Trade Finance



Left to Right: >>>

- Mr. L. Withana** - Assistant General Manager - Enterprise Banking
- Mr. S. N. B. M. W. Narayana** - Assistant General Manager - Small & Medium Enterprises
- Mr. M. K. De S. Gunaratne** - Assistant General Manager - Channel Management (ATM Operations)
- Mr. K. D. Karunatilake** - Assistant General Manager - Investigation & Inquiries
- Mrs. P. A. K. Pathirana** - Assistant General Manager - Finance & Accounting
- Mr. K. J. Wijewardena** - Assistant General Manager - Cards
- Mrs. R. P. N. Premalal** - Deputy Head of Finance
- Mr. A. Dissanayake** - Head of Infrastructure & Operations
- Mrs. H. L. S. S. Senanayake** - Assistant General Manager - Compliance

## EXECUTIVE MANAGEMENT



Left to Right: >>

**Mrs. M. B. A. K. B. Mudduwa** - Assistant General Manager - Overseas Customer Services

**Mr. A. U. L. A. Anzar** - Assistant General Manager

**Mrs. K. W. M. J. Senadeera** - Deputy Chief Law Officer

**Major General L. B. R. Mark (Retired)** - Head of Security

**Mr. K. B. N. Seelanatha** - Head of Application Systems

**Mrs. M. S. L. Perera** - Assistant General Manager

**Mr. K. A. Nihal** - Assistant General Manager

**Mr. W. A. Wasantha Kumara** - Assistant General Manager

**Mrs. G. S. Galappaththi** - Assistant General Manager

**Mr. T. M. W. Chandrakumara** - Assistant General Manager - Banking Support Services





Left to Right: >>>

- Mr. D. T. L. G. Wijayasuriya** - Assistant General Manager - Printing
- Mr. W. A. L. P. Jayarathne** - Assistant General Manager - Investment Banking
- Mr. T. G. S. P. Kumarasiri** - Acting Assistant General Manager
- Mrs. W. D. A. B. Liyanagunawardena** - Acting Assistant General Manager
- Mrs. D. M. D. Dasanayake** - Acting Assistant General Manager
- Mr. R. Ravikaran** - Acting Assistant General Manager
- Mr. M. T. Fasal Mohamed** - Acting Assistant General Manager
- Mr. A. Jayasith** - Acting Assistant General Manager
- Mrs. K. S. R. S. Loku Kaluge** - Acting Assistant General Manager

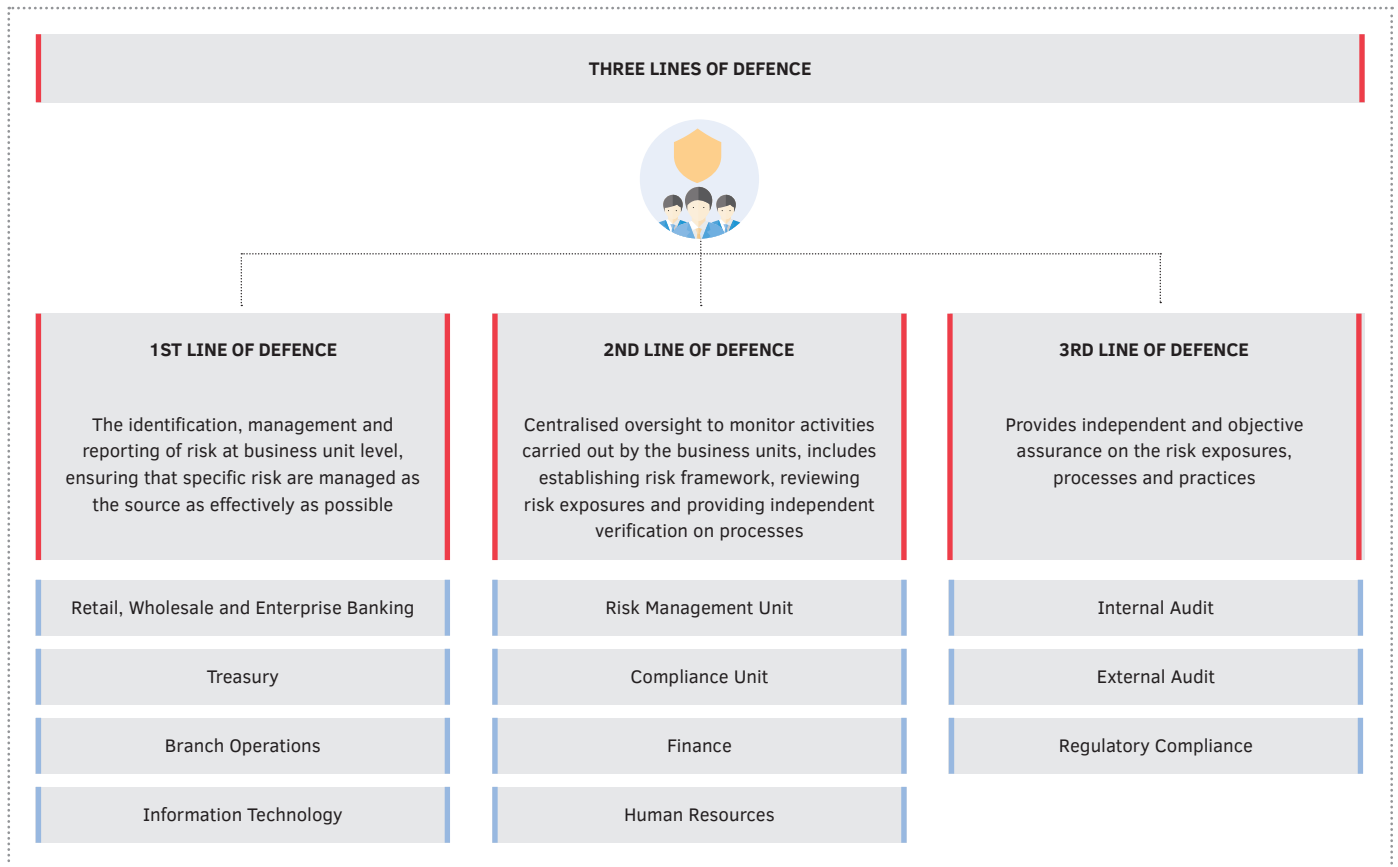
## MANAGING RISK

**GRI 102-15,102-30**

Risk management is at the heart of the Bank's operations. The Bank adopts an Integrated Risk Management Framework ("IRMF") to ensure risks are managed systematically, alongside business and compliance requirements.

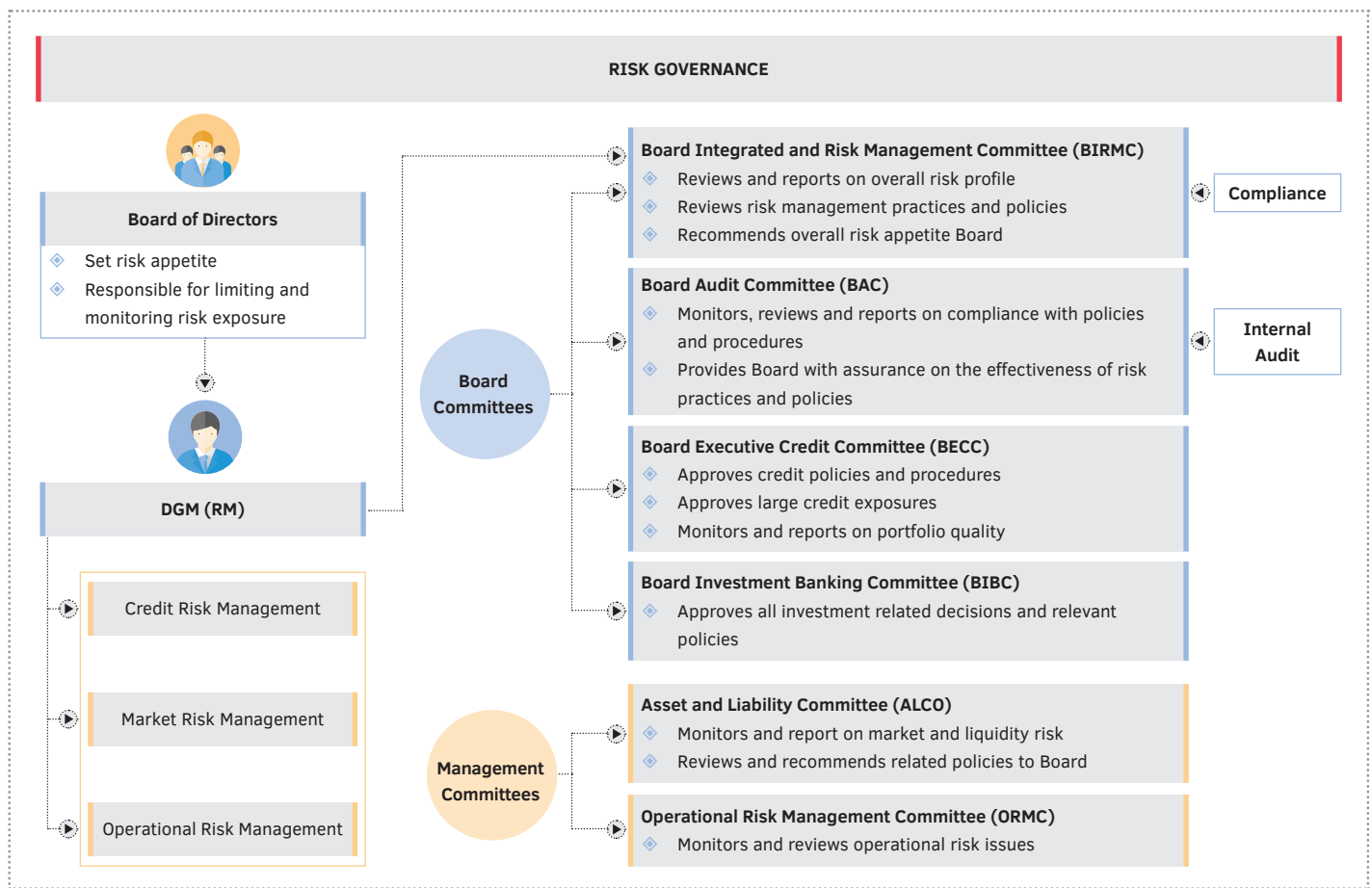
The Bank works constantly to improve its risk management framework, with considerable resources allocated each year to ensure the IRMF is aligned to the highest and latest international standards at all times.

Risk Management is integrated at an operational level vis-a-vis the "Three lines of defence" model. Business and operational units who are essentially the risk owners, constitute the **first line** of defence, while the **second line** consists of designated authorities in charge of ensuring that risks are controlled effectively and are managed in line with the set risk appetite. The **third line** of defence is also the last layer of control, and comprises of independent bodies who regularly assesses if the policies, methods and procedures are adequate and test their effective implementation in line with our risk management principles



**RISK GOVERNANCE**

The Board of Directors together with the Board Integrated Risk Management Committee (BIRMC) is collectively responsible for establishing an effective bank wide risk management framework taking cognizance of the banks' size, scale and scope of operations as well as long term strategic objectives. Their duties also include regularly reviewing our risk appetite and tolerance levels to keep pace with current developments. Regular reviews facilitate the identification of potential risks that the bank may be exposed to during the course of its operations which may call for new policies or the recalibration of existing procedures as required by prevailing circumstances and in line with internationally accepted best practices. Assisting the Board and the BIRMC in their role are several Board sub committees and executive committees.



**RISK MANAGEMENT TOOLS**

The Bank uses several tools to identify, assess and monitor the risks across products or various business segments. These include; credit scorecards, risk rating templates, expected loss models, stress testing and scenario analyses, among others.

**Stress Testing**

Stress Testing is one of the most important tools in the Bank's Risk Management framework. It plays a crucial role in the risk management and decision making process at a strategic level as well as for various business units within the bank, including; .

- Continuously refine internal models to determine the impact of different stress scenarios
- Monitor the consequences of multiple of events, including: – economic, regulatory and other macroeconomic developments
- Ensuring the Internal Capital Adequacy Assessment Process (ICAAP) parameters are maintained
- Supporting the formulation of the Bank's overall Risk Appetite Statement

## MANAGING RISK

Stress testing is conducted at least quarterly for all major risk categories, while portfolio-specific stress testing is done quarterly for highly sensitive aspects of the business; mainly lending, foreign exchange, interest sensitive asset/liability and liquidity.

### RISK APPETITE

The Risk Appetite Statement serves as an expression of the limits for managing business and risk concern by specifying tolerance levels for key risks categories that are deemed critical to the Bank's operations. These include;

- ◆ Credit Risk
- ◆ Credit Concentration Risk
- ◆ Market Risk
- ◆ Interest Rate Risk
- ◆ Equity Risk
- ◆ Foreign Exchange Risk
- ◆ Liquidity Risk
- ◆ Operational Risk (People, IT, Legal)
- ◆ Strategic Risk
- ◆ Reputation Risk

The Risk Appetite Statement is approved by the Board and revised annually, if deemed necessary by the board to ensure the Bank continues to perform its business activities in line with approved strategic plans, policies and limits, while at the same time effectively balancing risks and rewards against the interest of the Bank's various stakeholders.

### RISK CULTURE

The bank believes that while the right policies, procedures, limits, and models are important, for risk management to be truly effective, it is critical to develop the right values and behaviours that will shape the way employees carry out their day-to-day duties and responsibilities. Moreover a proactive Risk Culture paves the way for better reporting and disclosure of Risk. In developing a suitable risk culture, the bank conducts regular training that focuses on promoting the following behaviours among employees:

### RISK REPORTING AND DISCLOSURE

Within the Bank's Risk Management Framework all Risk policies, procedures, tolerance limits etc. are formally documented with information being disseminated to relevant employees through the established reporting structure. Moreover specific risk reporting and disclosure guidelines are in place to escalate concerns through the Risk Governance mechanism for necessary action if required. In addition a number of standard and ad-hoc management reports are prepared and presented to several different senior committees responsible for risk management.



#### Collaborate

- ◆ Working together with all 3 Lines of Defense, to meet the group's strategic initiatives and ongoing mission.



#### Innovate and Simplify

- ◆ Providing solutions that are responsive and innovative
- ◆ Working towards reducing complexity whenever possible.



#### Understand and act

- ◆ Understanding how our products/services meet our customer's needs.
- ◆ Understanding the inherent risks within our products/Services.
- ◆ Implementing controls to mitigate these risks, based on accepted risk-control trade-offs.



#### Commit to Excellence

- ◆ Enabling the Group to provide products and services that are in the best interests of our customers.



#### Take Ownership

- ◆ Holding ourselves accountable for achieving the Group's Mission.
- ◆ Honouring our commitments to our partners/stakeholders to address/resolve issues that arise

**MANAGING MATERIAL RISKS**



**CREDIT RISK**

The risk of loss due to failure by customers/ counterparties to fulfill their financial obligations/contractual, when due.

**Governance Bodies**

- ◆ Board of Directors
- ◆ BIRMC
- ◆ Risk and Portfolio Review Committee
- ◆ Risk and Compliance Committee
- ◆ Risk Management & Credit Control Unit (RM&CC)

Frameworks and Policies	Methodologies and Tools
Credit Risk Management Framework in compliance with CBSL	Pre-Credit Evaluation Procedure
PB's Credit Policy	Monitoring of overdue facilities (Region-wise)
BASEL Requirements	Watch listing, Borrower Risk Rating, Single borrower limit analysis
Segregation of duties between Loan origination, administration and risk assessment	Post-Credit Monitoring and Loan Review mechanism
	Delegated authority levels for credit approval
	Annual review of the credit Policy by the Board and the BIRMC

**FOCUS FOR 2018**

The main effort for the year was to strengthen the post credit monitoring processes. Key steps taken in this regard include;

- ◆ Set up an independent Post Grant Credit Review Unit which reports directly to the Board of Directors . The said unit is tasked with handling post review activities for existing facilities with a view to strengthening credit quality of the portfolio and shall report any deficiencies observed to the Board of Directors on a quarterly basis.

**CREDIT CONCENTRATION RISK**

The risk due to the high exposure to certain sectors of the economy

Frameworks and Policies	Methodologies and Tools
Board approved limits and maximum exposure guidelines	Stress Testing to determine the principle risk factors affecting the portfolio, with quarterly results reported to the BIRMC for necessary action
Compliance with CBSL guidelines pertaining to single borrower limits	Calculation of Concentration Risk based on the Herfindhal - Hirshman (HH) index
	Annual Board review of exposure limits
	Ongoing review of the Bank's concentration risk to determine; top 20 exposure as a percentage of the total portfolio, product wise, sector wise, region wise etc.
	Quarterly trend analysis
	Delegated authority levels for credit approval

## MANAGING RISK

### COUNTRY RISK

The political, economic, sovereign and transfer risk associated with offshore lending

Frameworks and Policies	Methodologies and Tools
Sovereign Risk Rating	Regular monitoring country wise exposure
Risk Appetite Limits and Lending Caps	Continuous assessment of economic, and political developments



### MARKET RISK

The risk of lower earnings that could arise as a result of the fallen value of the portfolio due to market variables such as; interest rates, foreign exchange rates and equity market movements.

#### Governance Bodies

- ◆ Board of Directors
- ◆ BIRMC
- ◆ ALCO
- ◆ BIBC

Frameworks and Policies	Methodologies and Monitoring Mechanisms
Market Risk Management Framework in compliance with CBSL	Regular monitoring / reporting and flagging events to ALCO, BIRMC and BIBC - as applicable
Board approved limits	Annual review of limits, exposures and excesses (if any) by ALCO and BIRMC
BASEL Requirements	Quarterly review by ALCO and BIRMC
Board approved ALCO Policy	Monthly review by ALCO of all key guidelines and flagging events to BIRMC and BIBC - as applicable
Board approved Treasury Policy	Ensuring adherence to ALCO and flagging events to BIRMC and BIBC as and when needed with a frequency of at least once every quarter
Board approved Investment Policy	
Board approved Market Risk Management framework	

### LIQUIDITY RISK

The risk arising due to the inability to meet financial obligations, caused by the maturity mismatch in the bank's asset and liability portfolios

Frameworks and Policies	Methodologies and Tools
Liquidity Management Framework, including board approved Risk Appetite Limits	Regular Stress Testing, with results reported to the BIRMC
Board Approved Liquidity Contingency Management Plan	Monitoring of key ratios including; Net Loans / Total Assets, Total Loans / Customer Deposits, Liquid Assets Short Term Liabilities etc.
Compliance with BASEL Requirements	Preparation of a time sensitive "Maturity of Assets and Liabilities" Statement Assessment of liquidity risk under the Economic Capital Calculation, a requirement of the Internal Capital Adequacy Assessment Process (ICAAP) Annual review of Risk Appetite limits

**INTEREST RATE RISK**

The risk that is caused by a mismatch in the Bank's asset and liability repricing model.

Frameworks and Policies	Methodologies and Tools
Board approved authority limits	Regular Stress Testing, with results reported to the BIRMC
Compliance with BASEL Requirements	Regular limit monitoring, with weekly results presented to the ALCO and the BIRMC
Board approved prudential loss limits	Preparation of the "sensitivity of assets and liabilities" report determine the sensitivity of fixed and floating interest rates for various time bands
	Assessment of Interest Rate risk under the Economic Capital Calculation, a requirement of the Internal Capital Adequacy Assessment Process (ICAAP)
	VaR calculation for Treasury bills / bond portfolios, with results reported to the ALCO

**FOREIGN EXCHANGE RISK**

The risk caused by the asset and liability mismatch of specific foreign currencies, where the net exposure will fluctuate due base on currency movements

Frameworks and Policies	Methodologies and Tools
Board approved risk appetite limits	Regular Stress Testing, with results reported to the BIRMC
Board approved VaR limits	Regular limit monitoring, with monthly/quarterly results presented to the BIRMC and the ALCO
Segregation of treasury duties between front office, middle office and back office along with a three-tiered limit structure approved by the Board	Preparation of the "sensitivity of assets and liabilities" report determine the sensitivity of fixed and floating interest rates for various time bands
	Assessment of Foreign exchange Rate risk under the Economic Capital Calculation, a requirement of the Internal Capital Adequacy Assessment Process (ICAAP)
	VaR calculation for foreign exchange sensitive portfolios
	Use of the latest technology and software to monitor exposure limits and maturity gaps in foreign currency asset and liability portfolios
	Daily revelation of open positions

**EQUITY RISK**

The risk of a negative impact to the Bank's equity portfolio resulting from adverse movements in the equities market

Frameworks and Policies	Methodologies and Tools
Board approved risk appetite limits	Regular Stress Testing, with results reported to the BIRMC
	Regular Review of equity portfolio by the Investment Committee
	Assessment of Equity Rate risk under the Economic Capital Calculation, a requirement of the Internal Capital Adequacy Assessment Process (ICAAP)
	Regular monitoring of the Equity portfolio in tandem with movements in the equities market in order to maintain a mark-to-market investment portfolio

**FOCUS FOR 2018**

Following the implementation of the BASEL III Capital Adequacy requirements in 2017, the focus for 2018 was centered on;

- ◆ Automation of the Market Risk Capital Charge computation process using the newly implemented Market Risk module under the Data Warehouse Project (DWH).

## MANAGING RISK



### OPERATIONAL RISK

The risk of incurring losses due to inadequate or failed internal systems, people or processes

Frameworks and Policies	Methodologies and Tools
Operational Risk Management Framework in compliance with CBSL	Regular review by the ORMC and BIRMC to determine the adequacy and effectiveness of operational polices
	Regular Internal Audits to identify system gaps
	Branch assessments of operational risk
	Monitoring of operational loss events of the branch network and reporting to the relevant authorities

### FOCUS FOR 2018

The main effort for the year was to strengthen the Bank's Operational Risk Management. Key steps taken in this regard include;

- ◆ Developing a new Enterprise Governance Risk and Compliance (EGRC) model to capture potential loss incidents across the branch network. The EGRC module too was facilitated under the new Data Warehouse project

### PEOPLE RISK

The risk of failure of the workforce to adequately and efficiently serve clients, support operations and deliver business strategy.

#### Governance Bodies

- ◆ Board of Directors
- ◆ Human Resources Unit
- ◆ BHRRC
- ◆ Internal Audit Function

Frameworks and Policies	Methodologies and Mechanisms
Recruitment Policy	The Bank's Human Resource Plan is devised in consultation/ coordination with the Head(s) of Department(s). The plan is reviewed by the Human Resource Department annually or a lesser frequency if the business requirements so demand.
Compensation and Benefit Policy	Compensation is mostly governed by the employee collective agreement, as entered into once every three years. In addition, experience based increments and other performance assessment are undertaken through a performance review undertaken annually.
Performance Review Policy	Employee performances are reviewed by the Human Resource Department on annual basis. This is carried out by way of a two way performance evaluation mechanism and a subjective performance evaluation mechanism which encompasses criteria both of quantitative and qualitative nature. These are used for the purposes of both promotions and other recognitions
Promotions and Transfer Policy	Based on the grade, promotions are considered on the performance at a written competitive examination and an interview. Transfers are reviewed annually by the Bank's Human Resource Department
Training and Development Policy	The Bank on an ongoing basis identifies training requirements of its employees at all levels. Opportunities are given for Departmental Heads to nominate staff on a needs basis. Training programs are carried out both locally and overseas. Training requirements are assessed once every year
Employee Relations policy	This is carried out through an employee satisfaction survey and an employment engagement survey carried out once every year. In addition, the Bank has established a strong employee grievance handling mechanism where they are able to escalate any unresolved grievances direct to the Chief Executive Officer/ General Manager
Disciplinary Policy	Matters arising herewith are dealt with by the Bank's Internal Investigation & Inquiries Unit falling within the purview of the Human Resources Department. All matter brought to their attention are thoroughly investigated prior to taking requisite and necessary disciplinary measures
Employee Code of Conduct	

### FOCUS FOR 2018

Please refer page Human Capital Report on page 116 to 123



**INFORMATION TECHNOLOGY RISK**

The risk due caused by the inability to manage, develop and maintain secure, agile technology assets to support strategic objectives. The risk of financial loss, disruption or damage to reputation from breaches or attacks on the website, systems or networks

**Governance Bodies**

- ◆ Board of Directors
- ◆ BIRMC
- ◆ IT Steering Committee
- ◆ IT Department

Frameworks and Policies	Methodologies and Tools
IT Strategic Plan	Independent vulnerability assessment carried out by external consultants based on need
Business Continuity Plan, including a Disaster Recovery and Contingency plan	Bi-annual trial run to gauge the efficiency of the BCP
IT Governance guidelines under the Code of Best Practices for Corporate Governance issued by ICASL (Institute of Chartered Accountants - Sri Lanka)	Continuous and ongoing efforts to strengthen IT governance
Benchmarking international best practices including ISO standards	Cyber Security Training for employees
	ISO 27001 System Audits to identify gaps
	Procurement Procedure

**FOCUS FOR 2018**

The main effort for the year was to comply with the CBSL baseline standards for cyber security. Key steps taken in this regard include;

- ◆ Appointment of an Information Security Officer (ISO) based in Risk Management Department independent from IT who reports directly to the Chief Risk Officer

**COMPLIANCE RISK**

The risk of loss due to penalties, fines, or other liabilities arising from non-compliance of applicable laws, regulations, or contractual obligations.

**Governance Bodies**

- ◆ Board of Directors
- ◆ BIRMC
- ◆ ORMC
- ◆ Internal Audit Function
- ◆ Legal Department
- ◆ Compliance Unit
- ◆ Company Secretary

Frameworks and Policies	Methodologies and Mechanisms
Board approved Compliance Policy	Oversight by the Compliance Unit and the Company Secretary to ensure all requirements therein are fulfilled. These are reviewed by both the Bank's Internal and External Auditors
Multi-layered approval process for all legal documents / service level agreements, with the final sign off by both the CRMU and the Compliance Unit	Continuous and ongoing review by the Legal Department to ensure all requirements therein are met
People's Bank Act No. 29 of 1961	Legal advice from Attorney General's Department and the External Consultants as and where necessary
Banking Act No. 30 of 1988 and amendments thereto	Regular consultation and proactive dialogue with CBSL relating to all matters of a regulatory nature. In addition, forming an integral part of annual reviews relating to areas being reviewed, both the Bank's Internal and External Auditors assesses compliance to Banking Act Directions and amendments thereto
Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks	Oversight by the Compliance Units and the BIRMC to ensure all requirements therein are fulfilled. In addition, forming an integral part of its Annual Report disclosures, the Bank undertakes an annual audit of corporate governance requirements. This is undertaken by the Bank's External Auditor who is appointed by the Auditor General's Department

## MANAGING RISK

Frameworks and Policies	Methodologies and Mechanisms
Inland Revenue Act No. 10 of 2006 and No. 24 of 2017 and amendments thereto	These are reviewed by the Bank's Internal and External Auditors, In addition, the Bank also engaged a reputed third Party Consultancy firm to assist with Inland Revenue Act related compliance
Shop and Office Employees Act No. 19 of 1954 and amendments thereto	These are reviewed by the Bank's Internal and External Auditors
Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995	These are reviewed by the Bank's External Auditor - i.e the Auditor General

### FOCUS FOR 2018

The main effort for the year was to strengthen Bank's Compliance systems.



#### STRATEGIC RISK

The risk of loss arising from adopting the wrong business strategy, failure to properly execute business strategies, or failure to effectively respond to changes in the industry/economy

#### Governance Bodies

- ◆ Board of Directors
- ◆ Strategic Planning committee
- ◆ BIRMC

Frameworks and Policies	Methodologies and Tools
Board approved 3-year strategic plan	Quarterly strategic review by the Strategic Planning Committee and the Board
Strategic Risk Management Policy	Continuous and ongoing review by the ORMC



#### REPUTATIONAL RISK

The risk of loss arising from the negative perceptions of stakeholders.

#### Governance Bodies

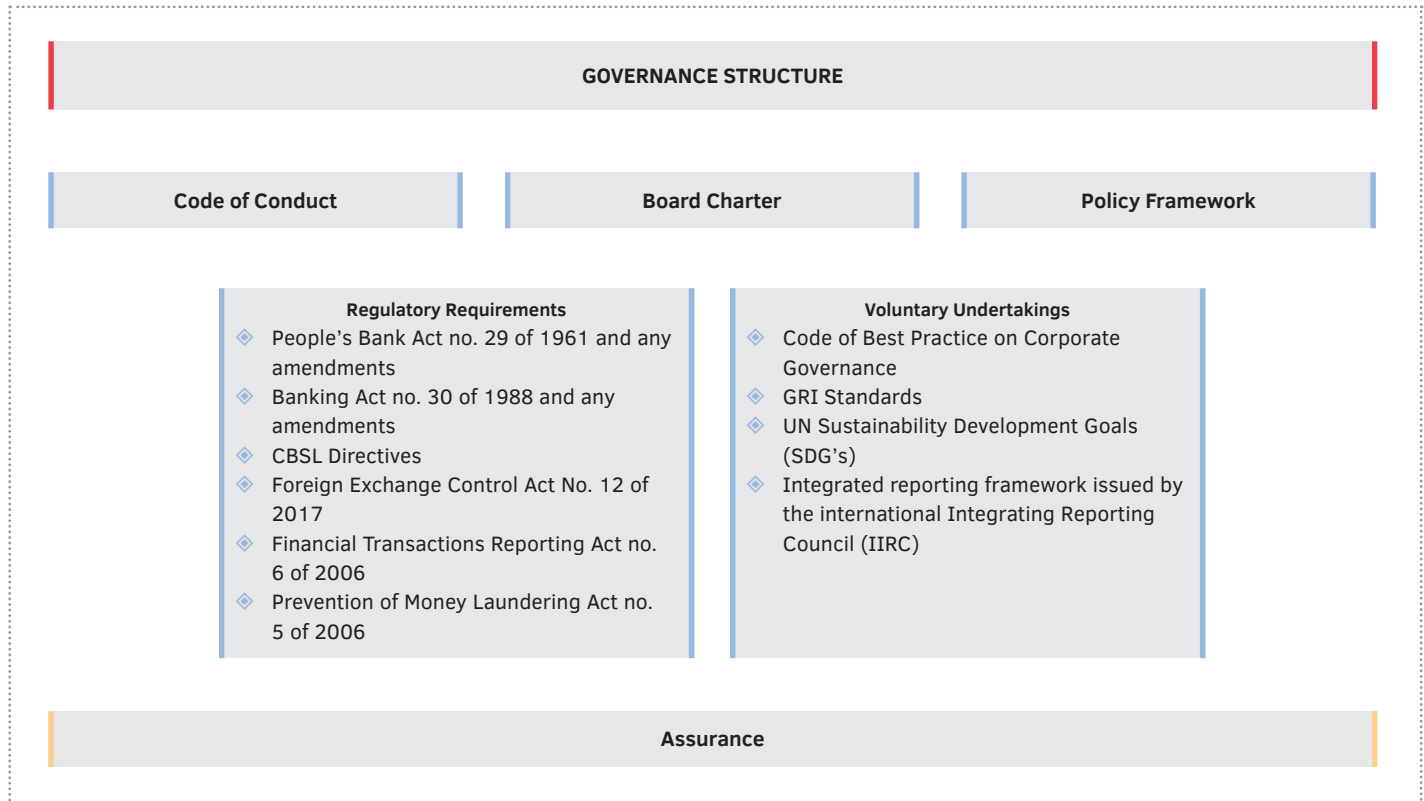
- ◆ Board of Directors
- ◆ BIRMC

Frameworks and Policies	Methodologies and Tools
Reputational Risk Management policy	Assessment of Reputational risk under the Economic Capital Calculation, a requirement of the Internal Capital Adequacy Assessment Process (ICAAP)
Business Continuity Planning	Bi-annual trial run to gauge the efficiency of the BCP and ensure 100% system availability
Anti- Corruption Policy	Continuous and ongoing review by the BIRMC
Brand Guidelines	Brand perception study through an independent third party
Customer Complaint Handling Policy	People's Bank has formulated "Customer Charter" going in par with the guidelines issued by the Monetary Board, by its Banking Act Direction No 08 of 2011, and customer complaints are being handled as per the procedure depicted in section No. 03 "Handling Complaints".
CSR and Sustainability Policy	
Anti-Fraud Policy	Apart from the reviews carried out with regard to Director's Statement of Internal Control, internal control lapses are continuously reviewed and followed by Board Audit committee
Anti-Money Laundering Policy	Oversight by the Compliance Unit and the BIRMC to ensure all legal obligations are fulfilled.
Employee Code of Conduct	
Product Policy to manage the product lifecycle	

## CORPORATE GOVERNANCE REPORT

People's Bank's approach to Corporate Governance is aimed at promoting strategic decision making that combines long and short-term outcomes to reconcile the interests of the Bank, while creating sustainable shared value for our stakeholders and the wider society we see governance as an enabler that creates competitive advantage through enhanced accountability, effective risk management, clear performance management, greater transparency and effective leadership.

### PEOPLE'S BANK CORPORATE GOVERNANCE FRAMEWORK

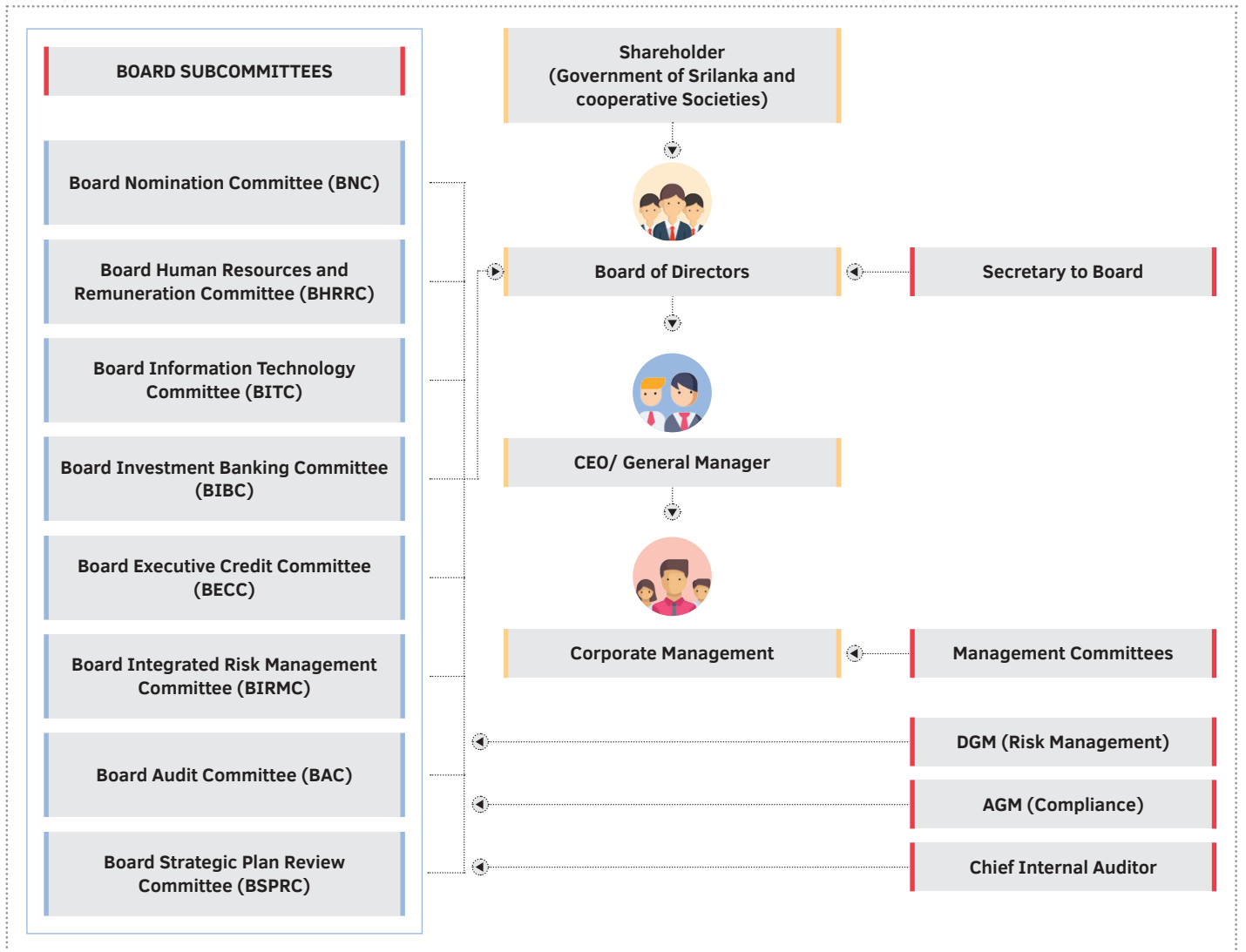


#### Key Focus for 2018;

- ◆ Establish/roll out the industry revolutionary Self Banking Unit Concept (SBU) to further expand customer reach and facilitate 24/7, all day Banking for the benefit of all customers.
- ◆ Review and approve the Bank's policies, procedures, key metrics and realign them as and where necessary in line with the Bank's Strategic Plan.
- ◆ Focus to drive its business with efficiency, innovation and technological advancement as part of its progressive strategy.
- ◆ Creating a highly secured technological environment comprising of advanced electronic delivery channels, with features and services that are available in today's fast growing world.
- ◆ Provide financial inclusion through innovation and dedication to its vision to become Sri Lanka's Most Digitalized Bank by 2020.
- ◆ Maintain high level of Customer Service Quality (CSQ) via introducing a Knowledge Appraisal System

# CORPORATE GOVERNANCE REPORT

GRI 102-18, 102-22



GRI 102-19

## GOVERNANCE STRUCTURE

Our Corporate Governance Structure consists of several layers. The Board fulfills an oversight role and deliberates with executive management over strategic direction, financial goals, resource allocation and risk appetite, while the Management is tasked with the responsibility of applying the tone set by the Board in order to create shared value for all our stakeholders.

## ASSURANCE

The Auditor General provides assurance on the Financial Statement of the Bank and on the Directors' Statement on Internal Control which are published on pages 145 and 75 respectively. He also certifies the level of Compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

GRI 102-22, 102-23, 102-24

**COMPLIANCE WITH THE CODE OF BEST PRACTICE FOR CORPORATE GOVERNANCE****The Board (Principle A.1)**

Directors to the People's Bank Board are appointed by the Minister of Finance & Mass Media. The current Board Consists of the Chairman, and all board members are non-executive Directors. All the Directors are respected state and private sector personnel. The present Chairman, is a seasoned professional with over 20 years of experience in the Legal field. Meanwhile the diverse range of skills and experience of the Non-Executive Directors prove that they are well qualified to scrutinize performance, assess the Bank's risk management and control process. Complete Board Profiles are available on pages 26 to 27.

**Holding of Regular Board Meetings (Principle A. 1.1)**

The Board meets at least once every month with additional meetings if and when required. The Board met 12 times during the year, with all board meetings characterized by high attendance, active participation, constructive and open discussions.

Directors are required to attend each Board meeting and meetings of any Committee of which they are members of. Any instance of non-attendance at Board meetings was generally due to prior business, personal commitments or illness.

In addition, other members of the senior management team and the Bank's advisers may, by invitation, attend meetings to address specific agenda items. In addition, members of the Corporate Management team and / or external experts are allowed to make presentations to the Board and Sub-Committees on a regular basis on matters pertaining to the Bank's strategy.

The attendance of each Director at Board Meetings and respective committee meetings in 2018 are set out in the table below:

Name of Director	Board Meeting	Board Audit Committee	Board Executive Credit Committee	Board Human Resources and Remuneration Committee	Board Integrated Risk Management Committee	Board Nomi-nation Committee	Board Investment Banking Committee	Board IT Committee	Board Strategic Plan Review Committee
1. Mr. Hemasiri Fernando- as Chairman - NI/NEX	10/10			5/5		5/5		1/1	1/1
Mr. Jehan P. Amaratunga - NI/NEX	8/1	3/3			2/2	5/5	1/1	1/1	1/1
Ms. G.D.C. Ekanayake - I/NEX	10/10	3/3			2/2	4/5	1/1		1/1
Mr. Krish Rajendran - I/NEX	8/8		16/16						
Mr. T.D. Anton S. Hemantha - I/NEX	8/10		18/20	5/5					
Dr. Aminda Perera - I/NEX	10/10		20/20					4/4	
Mr. K.D.N. Ranjith Asoka - NI/NEX	9/10	3/3			2/2	1/1	1/1	1/1	
Mr. Nilanka Mevan Pieris - I/NEX	3/3							4/4	
Ms. Sujatha Cooray - I/NEX	2/2								
2. Mr. Hemasiri Fernando – As a Director - NI/NEX	1/2								
Mr. K.D.N. Ranjith Asoka - NI/NEX	2/2	1/1			1/1				
Mr. K.S. Gunathilaka - I/NEX	2/2		1/1					1/1	
Mr. D. Widanagamachchi - I/NEX	2/2	1/1			1/1				
Mr. A.H. Wijesiri Ambawatta - I/NEX	1/2		1/1					1/1	
Mr. Jayanpathy Molligoda - I/NEX	2/2		1/1					1/1	
Ms. Damitha Ratnayake - NI/NEX	2/2	1/1			0/1				

I- Independent/ **NI**- Non-Independent/ **NEX**- Non-Executive

**Role of the Board (Principle A. 1.2)**

The Board is responsible for the leadership, oversight, control, development and long-term success of the Bank and to facilitate value creation to shareholders in accordance with applicable laws and regulation. The Board is also responsible for instilling the appropriate culture, values and behaviour throughout the organization.

## CORPORATE GOVERNANCE REPORT

There is a formal schedule of matters reserved for the Board, which is reviewed regularly to ensure that it remains current. Matters reserved for the Board include the items summarized in the table below:

Governance	Strategy and Directions	Risk Management accountability and control
<ul style="list-style-type: none"> <li>◆ Review of governance arrangements</li> <li>◆ Appointments to and removals from the Board</li> <li>◆ Terms of reference for and membership of Board committees</li> </ul>	<ul style="list-style-type: none"> <li>◆ Approval of strategy and annual budgets</li> <li>◆ Authorisation of acquisition and disposal activity</li> <li>◆ Affirmation of risk management strategies and risk appetite</li> </ul>	<ul style="list-style-type: none"> <li>◆ Approval of financial statements, other updates to market and recommendations on dividends</li> <li>◆ Approval of authority levels, financial and treasury policies</li> <li>◆ Review of internal control and risk management</li> <li>◆ Approval of health and safety policies</li> </ul>

The Board has delegated some of its responsibilities to Committees of the Board. The scope of work assigned to each Committee along with the progress made during the year is set out on pages 71 to 74 of this Report.

Monitoring the effectiveness of the risk management and internal control systems has been delegated to the Board Risk Management Committee and Board Audit Committee, while the Board retains ultimate responsibility for determining the "risk tolerance" and annually considers a report in relation to the monitoring, controlling and reporting of identified risks and uncertainties. In addition, the Board receives reports referred by the Chairman of the Board Intergrated Risk Committee and Board Audit Committee in relation to the work of that Committee, in the area of risk management.

### Compliance with Laws of the country as applicable to the business and procedure to obtain independent professional advice. (Principle A. 1.3)

The Board collectively and Directors individually, are expected to act in accordance with the Laws of the country, as applicable to the various business conducted by the Bank and as such are responsible for ensuring all relevant procedures and controls are in place to maintain compliance with all applicable Laws and regulations.

The Board acknowledges the need to obtain from time to time an independent judgment on certain Board matters. Accordingly, Board members are entitled to seek independent professional advice (including but not limited to legal, accounting and financial advice) at the Bank's expense on any matter connected with the discharge of his/her duties and responsibilities.

### Company Secretary (Principle A. 1.4)

All Directors have access to the Board Secretary. The Board Secretary is responsible to the Board for ensuring that agreed procedures and applicable rules and regulations are observed. In addition the Board Secretary is the also serves as the Secretary for all Committees and maintains minutes of all Board meetings and committee meetings. Other responsibilities of the Board Secretary include;

- ◆ Co-ordinating matters pertaining to the conduct of Board Meetings and subcommittee Meetings
- ◆ Conduct of proceedings in accordance with the People's Bank act and relevant legislation

- ◆ Facilitating adoption of best practice on corporate governance including assistant directors with respect to their duties and responsibilities, in compliance with relevant legislation and best practice
- ◆ Acting as the communication liaison between non-Executive Directors and Management
- ◆ Ensure appropriate disclosures on related parties and related party transactions in line with regulatory requirements
- ◆ Obtaining legal advice in consultation with the Board on the People's Bank Act and other relevant legislations in ensuring that the Bank complies with all applicable laws and regulations

### Independent Judgment of Directors (Principle A. 1.5)

Directors are required to bring an independent judgment to bear on decisions of the Bank.

As experienced professionals, their duties are performed without any influence from other persons. The Board promotes an environment whereby challenging contribution from the Non-Executive Directors is welcomed and encouraged.

### Dedication of Adequate Time and Effort by the Directors (Principle A. 1.6)

Directors are expected to dedicate sufficient time before a meeting to review Board papers and call for additional information and clarification and to follow up on issues

Directors are also expected to ensure sufficient time is dedicated at every meeting to ensure all responsibilities are discharged satisfactorily.

### Training for the Directors (Principle A. 1.7)

All Directors are entitled to receive relevant training opportunities for continuous development. To ensure that Directors' contribution to the Board/committees remains relevant, on-going trainings and updates are provided for Directors to regularly refresh their knowledge, skills and understanding of the business and markets in which the Bank operates, including written reports to the Board and presentations by senior executives or external advisors on, among other things, the Bank's business, corporate governance, legal and regulatory developments.

### Chairman and CEO (Principle A. 2)

Whilst the Chairman and Chief Executive Officer (CEO) / General Manager are collectively responsible for the leadership of People's Bank and for promoting the highest standards of integrity and probity, there is a clear and effective division of accountability and responsibility between the Chairman and the CEO / General Manager and each plays a distinctive role but complementing each other to ensure that there is a balance of power and authority and no individual has unfettered powers of decision and control.

The Chairman is responsible for leading, directing and managing the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. CEO / GM's role is primarily to manage the day-to-day operations of the Bank.

### A decision to combine the posts of Chairman and Chief Executive Officer in one person should be justified and highlighted. (Principle A. 2.1)

The position of the Chairman and the CEO / GM are clearly separated, preventing unfettered powers for decision making in one person

The Chairman and the CEO / GM have been identified on pages 26 and 30 of the Annual Report.

### GRI 102-23

### Chairman's Role (Principle A. 3)

The Chairman is responsible for ensuring that the CEO / GM and the management effectively implement the strategies and policies agreed by the Board. The Chairman also provides stewardship for the adoption of good governance practices and provide oversight to ensure effective communication with shareholders and other stakeholders.

### Conducting Board Proceedings in a proper manner (Principle A. 3.1)

The Chairman is responsible not only for providing leadership but also for overseeing the functioning of the Board to safeguard the best interest of the Bank and its shareholders. Accordingly, the Chairman is responsible for;

- ◆ Ensuring Board meetings are planned and conducted effectively
- ◆ Setting the agenda for each Board meeting, taking cognizance of the matters proposed by other Directors, members of various sub-committees or the Board Secretary
- ◆ Ensures the Board members receive accurate, timely and clear information
- ◆ Ensures minutes of Board meetings are accurately recorded and circulated among the Directors
- ◆ Provides leadership and governance of the Board so as to create the conditions for overall Board's and individual Director's effectiveness, and ensures that all key and appropriate issues are discussed by the Board in a timely manner
- ◆ Promoting a culture of openness and encourage constructive debates and challenges, between Non-executive Directors regarding Board matters so as to fully contribute to the effective functioning of the Board.

- ◆ Ensures that the Board as a whole plays a full and constructive part in the development and determination of the Group's strategies and policies, and that Board decisions taken are in the Bank's best interests and fairly reflect Board's consensus.
- ◆ Proving leadership the process for self-assessment to generate meaningful feedback to further improve the effectiveness of the Board.

### Financial Acumen (Principle A.4)

The Board comprises of members having sufficient financial acumen and knowledge. There are senior Chartered Accountants and Chartered Management Accountant who provide guidance on the financial matters. In addition, other Directors of the Board have a wealth of experience that provides them with sufficient financial acumen.

### Board Balance (Principle A. 5)

The Board is well balanced. And to ensure no one individual or group of individuals is able to dominate the decision-taking process, the Board consists of 10 non-executive Directors, of which 6 function in an independent capacity above the minimum stipulated requirements under code of best practice for Corporate Governance jointly issued by the SEC and the Institute of Chartered Accountants of Sri Lanka.

All Independent Non-Executive Directors are independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.

Each Non-Executive Director submits a signed declaration of independence / non-independence against the specified criteria and they are evaluated to ensure compliance with the criteria for determining independence.

In the year under review, there were no circumstances that warranted appointment of alternate Directors. Moreover as the position of the Chairman and the CEO / GM are separated the necessity to appoint a Senior Independent Director has also not arisen. Since the Chairman and Auditor General served on the Directorate of a Bank's subsidiary, senior Independent Director was once appointed.

### Supply of Information (Principle A. 6)

Board meetings are scheduled well in advance, with all Directors being provided adequate notice. Prior to each Board or Committee meeting, the Company Secretary ensures that the relevant papers including a clear agenda with guidelines on content and a summary of management presentations are made available to all Directors 7 working days in advance of the meeting. The Directors who are unable to attend the meetings are updated through the documented minutes, which are tabled at the next meeting with the follow-up from matters arising from the minutes.

## CORPORATE GOVERNANCE REPORT

Monthly accounts for a given month are prepared circulated among Directors with key financial performance indicators of each division / subsidiary. Should the Board find that the information provided is insufficient or not clear, they are entitled to call for further clarity or additional information, with the relevant management personnel being called for the meetings when deemed necessary to provide further details.

### GRI 102-24

#### Appointments to the Board (Principle A. 7 & A.8)

In accordance with the People's Bank Act, a maximum of 10 Directors are appointed by the Minister in charge of the subject of which two Directors are nominees of the said Minister handling the subject of cooperatives. Appointments are made for a period of 3 years subject to a maximum term of nine years and an age limit of up to 70 years, whichever comes first in line with the provisions of the Banking Act Direction No.11 of 2007.

All appointments for directorships are submitted to the Central Bank of Sri Lanka for assessment under the Fit and Proper Criteria for Directors.

#### Appraisal of Board Performance (Principle A. 9)

Each member of the Board carries out a self-assessment of his own effectiveness as an individual as well as effectiveness of the Board as a team for the year, which incorporates all criteria specified in the Board performance evaluation checklist of the code. The responses are collated by the Board Secretary and submitted to the Board as a summary report.

Disclosure of Information in Respect of Directors (Principle A. 10)  
Information specified in the code in relation to the Directors is disclosed in this Annual Re-port as follows,

- ◆ Name, qualifications, brief profile and the nature of his expertise on pages 26 to 27
- ◆ Number of Board and Committee meetings held and attendance on page 51
- ◆ Names of Committees in which the Director serves as the Chairman or a member on pages 71 to 74
- ◆ Related party transactions on page 70

#### Appraisal of the CEO (Principle A. 11)

The evaluation of the CEO / GM is one of the most important responsibilities of the Board. The evaluation process provides a formal opportunity for the Board and CEO / GM to have a constructive discussion regarding the performance and the CEO / GM's leadership of the Bank. The Board works through the Board Human Resource & Remuneration Committee (BHRRC) in implementing the evaluation process. Prior to commencement of the financial year, the BHRRC sets objectives in consultation with the CEO / GM based on long, short and medium term business targets (financial and non-financial) considering all stakeholder interest. These goals are confirmed by the Board and are used as the basis for the annual CEO / GM's appraisal process.

The CEO / GM is responsible to provide the Board with explanations for any adverse variances along with corrective action to be taken.

#### Director's and Executive Remuneration Procedure (Principle B.1. B.1.1, B1.2, B1.3)

Board remuneration is decided according to guidelines set by the Ministry of Finance. No director is involved in determining his/ her own remuneration. The BHRRC makes recommendations to the Board pertaining to the remuneration and benefits of the CEO/ GM and key management personnel within agreed terms of reference and in accordance with the remuneration policies of the Bank and the Collective Agreement. Remuneration is designed to attract, retain and motivate high performing, qualified and experienced employees in the Bank. The Board in turn makes recommendations to the Minister of Finance who is the final authority for approval of their remuneration under the collective agreement.

The BHRRC seeks professional advice from outside the Bank, when deemed necessary, in discharging their responsibilities. The report of the BHRRC, disclosing the Statement of Remuneration Policy and the names of the Chairman and members of the BHRRC is given on page 72. The aggregate remuneration paid to the (Non-Executive) Directors is given on page 182.

#### Relations with Shareholders (Principle C.1, C.2)

As a state Bank, with the Government of Sri Lanka being the main shareholder, People's Bank comes directly under the purview of the Ministry of Finance & Mass Media. The Board liaises with the Ministry to ensure that there is alignment with the socio economic development goals of the country.

The Annual Report is printed in English, Sinhalese and Tamil and is circulated through the Ministry of Finance to the Parliament. The Bank liaises with the Ministry of Finance for matters concerning the Ministry.

#### Major and Material Transactions (Principle C.3)

There were no transactions which would materially alter the Bank's or Group's net asset base, other than those disclosed in Note 49 to the Financial Statements, Related Party Disclosures on page 238.

#### Financial Reporting (Principle D.1)

The Annual Report presents a balanced review of the Bank's financial position, performance and prospects. Both narrative and visual elements have been used in presenting the information, to increase comprehension and clarity. We have provided a balanced view on our performance in this report and other communications presented to relevant authorities including the Ministry of Finance and regulators. The Bank takes every effort to ensure compliance with statutory requirement in the Annual Report and in the issue of interim communications on financial performance.



The following disclosures as required by the Code are included in this report:

- ◆ Statement of Directors' Responsibility on page 144 includes a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements
- ◆ Independent Auditors Report on page 145 includes a statement of their responsibilities
- ◆ Directors' Statement on Internal Control on page 75
- ◆ Management Commentary on pages 94 to 141
- ◆ Statement of going concern of the company is set out in page 145 in the Statement of Directors' Responsibility
- ◆ Related Party Transactions are disclosed on Note 49 in the Financial Statements and page 70 of Corporate Governance section

#### Internal Control and Audit Committee (Principle D.2 & 3)

The Board is cognizant of its responsibility for formulating and implementing appropriate and adequate processes for risk management and sound internal control systems to safeguard shareholder interests and assets of the Bank. BAC assists the Board in relation to risk managements while BIRMC assists the Board in discharge of its duties with regard to risk management. Their roles and responsibilities are provided in the committee reports given on pages 71 and 74, respectively.

BIRMC is supported by the Risk Management Department of the Bank. A comprehensive report of how the Bank manages risk is included on pages 40 to 48. BAC is supported by the Internal Audit function of the Bank. The Internal Audit Department Reviews the adequacy and effectiveness of the internal control systems and reports to the BAC on a regular basis. Duties of the BAC include keeping under review the scope and results of such audit and its effectiveness. BAC also plays a primary role in liaising with the Auditor General, who conducts the external audit of the Bank.

#### Code of Business Conduct & Ethics and Corporate Governance Report (Principle D.4 & D.5)

The Bank has two Codes of Business Conduct & Ethics, one applicable to the Directors and the other the employees. BHRRC is responsible to regularly review the respective codes to ensure it remains relevant and adequate considering the evolving business operations of the Bank. The Codes of Business Conduct and Ethics are in compliance with the requirements of the Schedule I of the Code of Best Practice on Corporate Governance.

This Corporate Governance Report from page 49 to 70, complies with the requirement to disclose the extent of compliance with the Code of Best Practice on Corporate Governance as specified in Principle D5.

#### Shareholder Relations (Principle E & F)

As main shareholder of Peoples Bank is the Government of Sri Lanka, the relevant provisions of the Code are not applicable.

GRI 102-18, 102-19, 102-32

#### Sustainability Report (Principle G)

The Board approved a Sustainability Policy for the Bank and has set in place a governance structure to ensure its philosophy, objectives and strategic goals for social and environmental development are implemented. Accordingly, triple bottom line values have been embedded throughout the Bank's operations in all geographic areas. The sustainable business initiatives of the Bank are described in line with the Principles of the Code, as follows.

Principle 1 - Economic Sustainability - Financial Capital on pages 104 to 108

Principle 2 - Environment - Natural Capital on pages 134 to 136

Principle 3 - Labour Practices - Human Capital on pages 116 to 123

Principle 4 - Society - Social & Relationship Capital: Community on pages 132 to 133

Principle 5 - Product Responsibility - Social & Relationship Capital: Customer on Page 126

Principle 6 - Stakeholder identification, engagement and effective communication - Stakeholder Engagement on pages 82 to 83

Principle 7 - Sustainable reporting to be formalized as part of the reporting process and to take place regularly - About this report on pages 3 to 4

## CORPORATE GOVERNANCE REPORT

The Banking Act Direction No.11 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank.

Section	Principle	Compliance & Implementation	Complied
<b>3 (1)</b>	<b>Responsibilities of the Board</b>		
		The board has strengthened the safety and the soundness of the Bank in the following manner:	
a.	Setting strategic objectives and corporate values	<p>Board approved Strategic Plan 2016-2020 is in place. This has been subsequently ratified at the Board meeting held on 24.10.2016.</p> <p>Bank's strategic objectives have been communicated to the Business Unit Heads and to the operational level staff. Further, monthly progress of Strategic Plan 2016 to 2020 is reviewed by the Board.</p> <p>Budget 2018 has been presented by the Head of Finance and approved by the Board.</p>	Complied with
b.	Approval of overall Business Strategy including Risk Policy and Management	<p>Bank's Strategic Plan includes strategic objectives and overall business strategy for the period 2019 to 2020.</p> <p>'Risk Management Policy Manual and Risk Management Policy for Exposure to Equity Market' is in place recommended by BIRMC and approved by the Board.</p> <p>Business objectives in the Strategic Plan includes measurable goals for the next two years period from 2019 to 2020.</p>	Complied with
c.	Risk management	<p>Board Integrated Risk Management Committee (IRMC) takes the initiative in the assessing of all risks of the Bank with the assistance of the CRO and the relevant KMPs.</p> <p>Bank will have to initiate a process where the Board members discuss new strategies of the bank, the risks arising out of new strategies and further the ways and means to mitigate such risks.</p>	Complied with
d.	Communication with all stakeholders	The board has approved and implemented an effective two-way communication policy with all stakeholders.	Complied with
e.	Internal Control System and Management Information Systems	<p>There is an annual Board mechanism at the Bank to identify the accuracy of the financial information and the Bank's internal control systems by the Board of Directors through the process over design and effectiveness of internal control over financial reporting. Further Internal Audit Division of the Bank adds value to the process verifying the effectiveness of the above process.</p> <p>As an initial step, Internal Audit Department has identified Non- Financial MIS Reports.</p> <p>The Board has reviewed the above report and confirmed that they are satisfied with the accuracy and adequacy of the MIS of the Bank. Further Director/CEO has informed the Board that the management is in the process of taking appropriate action to improve the process as per the report.</p>	Complied with. However, Bank will strengthen this process going forward.
f.	KMP	Board has defined CEO, DGMs and AGMs of the Bank as KMPs as defined in Banking Act Determination No. 3 of 2010 and Bank Supervision Dept. Guideline No. 02/17/550/0002/003 issued on 02.12.2015.	Complied with

Section	Principle	Compliance & Implementation	Complied
g.	Define areas of authority and Key Responsibilities for Directors and KMP	<p>There is clear segregation of authority and responsibilities between the Directors and the KMP's. Board members are responsible for taking strategic decisions of the Bank. KMP's are responsible for carrying out the decisions made by the Board and for operations.</p> <p>Further, People' Bank Act defines the areas of authority and key responsibilities for the Board of Directors including the CEO.</p> <p>Key responsibilities of the KMP's are entirely operational based and are specified in their respective job descriptions.</p> <p>Authority of key management personnel are defined under delegation authority limits.</p>	Complied with
h.	Oversight of affairs of the Bank by KMP	Board has exercised appropriate oversight of the affairs of the Bank by key management personnel.	Complied with
i.	Assess effectiveness of own Governance practices	<p>People's Bank Act No. 29 of 1961 Section 8 defines the Selection and appointment of Directors by the Minister and two of them shall be nominated by the Minister in charge of the subject of Corporative.</p> <p>People's Bank Act No. 29 of 1961 Section 11 speaks on the conflicts of interest of the board of directors. Further, the Code of Best Practice section 2.13.G approved by the Board on in Sept 2011 speaks on conflicts of interests of the Board members.</p> <p>Bank has a Self- Evaluation process in place for the Board of Directors which include the evaluation of Board Directors' own governance practices. Further, the Code of Best Practice section 2.23.G approved by the Board on in Sept 2011 speaks on self-evaluation process.</p> <p>Self-evaluations for the year 2017 have been collected and a summary has been submitted to the Board for their review and to discuss areas of weaknesses and recommend changes where necessary.</p> <p>Self-evaluations for the year 2018 will be collected and submitted to the Board during first quarter of 2019.</p>	Complied with
j.	Succession plan for KMP	<p>Board approved Succession Plan for CEO and other Key Management Personnel (For DGMs and AGMs) is in place.</p> <p>However, existing succession plan need to be revised at least annually in order to have a proper succession arrangement for KMPs.</p>	Complied with. However, existing succession plan will be revised annually in order to have a proper succession arrangement for KMPs.
k.	Regular meetings with KMP	Key Management Personnel are called regularly when the need arises by the Board to explain matters relating to their area of functions.	Complied with

## CORPORATE GOVERNANCE REPORT

Section	Principle	Compliance & Implementation	Complied
l.	Regulatory environment and maintaining an effective relationship with regulator	<p>On appointment as Directors, the Board Secretary furnishes them with Code of Best Practice on Corporate Governance, details of existing Directors etc.</p> <p>The Compliance Officer submits a compliance report to the Board on a monthly basis.</p> <p>CBSL Statutory Examination Report as at 30.09.2017 has submitted to the Board and Board also has perused the remaining concerns with the time bound action plan in detail and stressed the need to address all concerns as matter of priority.</p> <p>Attendance of the CEO at CBSL meetings further evidence the relationship maintained with the regulator.</p>	Complied with
m	Hiring external Auditors	By People's Bank Act Section 34 the Auditor General is the auditor of the Bank. As per the Code of Best Practice in Corporate Governance (CBPCG) Section 6.1 (2) Terms of Reference, the Board Audit Committee (BAC), recommends the appointment and oversee the work of the external auditors.	Complied with
3.1 (ii)	Appointment of Chairman and CEO and defining and approving their functions and responsibilities	<p>As per the People's Bank Act Section 10, Minister shall appoint the Chairman of the Board from among the members of the Board.</p> <p>Mr. Hemasisri Fernando has been appointed as the Chairman of the Bank w.e.f. 06.02.2015. A letter has been issued by the Ministry of Finance dated 06.02.2015. However, Mrs. Sujatha Cooray was appointed as the Chairperson and the member of the Board of Directors by Minister of Finance and Economic Affairs w.e.f 09.11.2018.</p> <p>Board has appointed Mr. Vasantha Kumar as CEO/GM w.e.f. 01.06.2011. Section 2.22 &amp; 2.23 of Code of Best Practice in Corporate Governance of the Bank defines the Powers and Roles of the Chairman.</p> <p>Code of Best Practice in Corporate Governance (CBPCG) Section 3.9 Annex III of the Bank defines the Roles, Duties and Responsibilities of the CEO/GM.</p>	Complied with
3(1) (iii)	Regular board meetings	Bank has held 12 meetings during the year 2018.	Complied with
		<p>There were no circular resolutions passed during the year 2018.</p> <p>However, there were no Board meetings held during the months of Oct. and Nov. 2018 due to non- existent of proper Board. We have seen the directors' attendance provided by the company secretary as evidence.</p>	Non- complied
3.1.(iv)	Arrangements for directors to include proposals in the agenda	As a practice, directors include matters and proposals in the agenda for regular meetings. Board approved procedure is in place to enable all directors to include matters and proposals in the agenda for regular board meetings.	Complied with
3.1.(v)	Notice of Meetings	<p>Duties of the Secretary to the Board given in the Code of Best Practice in Corporate Governance includes a provision that the preparing the calendar of regular Board meetings for each year is the duty of the Board Secretary with the approval from the Board.</p> <p>The Board has granted its concurrence for the schedule of meetings to be held in the year 2018.</p> <p>Further as a practice, notice of at least 7 days is given for the board to provide all directors an opportunity to attend regular meetings.</p>	Complied with
3.1 (vi)	Directors Attendance	As per the Board Attendance schedule, all the Directors have attended the required number of meetings held during the year 2018.	Complied with

Section	Principle	Compliance & Implementation	Complied
3.1 (vii)	Appointment and setting responsibilities of the Company Secretary	Board has appointed the Board Secretary with effect from 08.08.2010.  Board Secretary is an Attorney at Law who satisfies the provisions of Section 43 of the Banking Act No.30 of 1988. His job description includes the responsibilities to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statute and other regulations.	Complied with
3.1 (viii)	Directors access to advice and services of Company Secretary	Section 2.25 of the Code of Best Practice in Corporate Governance has a provision in this regard. The Code of Best Practice has been approved by the Board at their meeting held on 30.09.2011.	Complied with
3.1 (ix)	Maintenance of Board Minutes	Duties of the Secretary to the Board given in the Code of Best Practice in Corporate Governance (version 1.2) approved by the Board includes a provision in this regard.	Complied with
3.1 (x)	Minutes to be of sufficient detail and serve as a reference for regulators and supervisory authorities	Detailed minutes are kept covering the given criteria and the board minutes evidence that they contain the required details such as individual views of the members, ultimate decision of the Board, whether complies with strategies and policies of the bank and further they speak on data, reports and information used by the board members in arriving at the decisions.	Complied with
3.1 (xi)	Directors ability to seek independent professional advice	Board approved policy is in place to seek independent professional advice in appropriate circumstances, at the bank's expense.	Complied with
3.1 (xii)	Dealing with Conflicts of Interest	People's Bank Act No.29 of 1961 Section 11 speaks on the conflicts of interest of the Board of Directors. This procedure further evidence that the director is to 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 and he/she not been counted in the quorum.  Section 2.13 of Code of Best Practice of the Bank approved by the Board also has a provision with regard to this.	Complied with
3.1 (xiii)	Formal schedule of matters reserved for Board decision	Board Charter of Code of Best Practice of the Bank approved by the Board Section 2.28 defines the Powers Reserved for the Board.	Complied with
3.1 (xiv)	Inform Central Bank if there are solvency issues	There is a procedure in place at the Bank for informing the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations.  Such an instance has not arisen during the year 2018.	Complied with
3.1 (xv)	Capital adequacy	Board has capitalized the bank at levels required by the Monetary board. This has been addressed through the Monthly Compliance Certificate submitted by the Compliance Officer.  Further the Board has ratified the ICAAP Report 2018 (covering the period 01.01.2017 to 31.12.2017) based on the recommendations of the IRMC.	Complied with
3.1 (xvi)	Publish Corporate Governance Report in Annual Report	Board has published its Corporate Governance report on compliance with section 3 of this Direction on page 49 to 70 of this Annual Report.	Complied with
3.1 (xvii)	Self-assessment of Directors	The Bank has a scheme of self-evaluation of directors in place and the Company Secretary annually obtains the evaluation forms from all the Directors.	Complied with

## CORPORATE GOVERNANCE REPORT

Section	Principle	Compliance & Implementation	Complied																					
<b>3.(2)</b>	<b>The Boards composition</b>																							
3.(2) (i)	Number of Directors	The Board Comprised of not less than seven (7) directors during the year 2018 except for the period 31.08.2018 to 08.11.2018. Thereafter, new group of directors appointed to the Board by the Minister of Finance and Economic Affairs w.e.f 09.11.2018.	Non -complied																					
3.(2) (ii) (a) & (b)	Period of service of a director	None of the directors has exceeded the service of nine years during the year 2018.  All the directors have been appointed during the year 2015 by the Minister in charge of the subject except for Mr. Jehan P Amaratunga, who was first appointed in 2010 by Minister in charge of the subject.	Complied with																					
3.(2) (iii)	Board Balance	There are no Executive Directors on the People's Bank Board.	Complied with																					
3.(2) (iv)	Independent Non-Executive Directors	The Board comprised of adequate number of independent non-executive directors on the board to comply with the direction during the current year. Details are given in the table below. <table border="1" data-bbox="511 865 1333 1115"> <thead> <tr> <th>Period</th> <th>Total No. of Directors</th> <th>No. of Ind. Non-Ex. Directors</th> </tr> </thead> <tbody> <tr> <td>01.01.2018 - 11.07.2018</td> <td>7</td> <td>3</td> </tr> <tr> <td>12.07.2018 - 30.08.2018</td> <td>8</td> <td>4</td> </tr> <tr> <td>31.08.2018 - 23.10.2018</td> <td>6</td> <td>3</td> </tr> <tr> <td>24.10.2018 - 08.11.2018</td> <td>0</td> <td>0</td> </tr> <tr> <td>09.11.2018 - 23.11.2018</td> <td>7</td> <td>5</td> </tr> <tr> <td>24.11.2018 - 31.12.2018</td> <td>8</td> <td>5</td> </tr> </tbody> </table>	Period	Total No. of Directors	No. of Ind. Non-Ex. Directors	01.01.2018 - 11.07.2018	7	3	12.07.2018 - 30.08.2018	8	4	31.08.2018 - 23.10.2018	6	3	24.10.2018 - 08.11.2018	0	0	09.11.2018 - 23.11.2018	7	5	24.11.2018 - 31.12.2018	8	5	Complied with
Period	Total No. of Directors	No. of Ind. Non-Ex. Directors																						
01.01.2018 - 11.07.2018	7	3																						
12.07.2018 - 30.08.2018	8	4																						
31.08.2018 - 23.10.2018	6	3																						
24.10.2018 - 08.11.2018	0	0																						
09.11.2018 - 23.11.2018	7	5																						
24.11.2018 - 31.12.2018	8	5																						
3.(2) (v)	Alternate Directors	There is no provision in the People's Bank Act to appoint alternate directors and such a situation does not arise.	N/A																					
3.(2) (vi)	Criteria for Non-Executive Directors	The appointments to the board are made by the Minister in Charge of the subject, under Section 8 of the People's Bank Act No. 29 of 1961.	Complied with																					
3.(2) (vii)	More than half the quorum to comprise non-executive directors	All the directors of the bank are non- executive and as per the Code of Best Practice of the Bank the stipulated quorum of the board is five.  As per the Attendance submitted by the Company Secretary for the financial year 2018 evidence that the required quorum has been complied with at all Board meetings.	Complied with																					
3.(2) (viii)	Identify independent non-executive directors in communications and disclose categories of directors in Annual Report	Composition of the board, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors have been disclosed in the Annual Report 2018 on page 51.	Complied with																					
3.(2) (ix)	Formal and transparent procedure for appointments to the Board	The appointments to the board are made by the Minister in Charge of the subject, under Section 8 of the People's Bank Act No. 29 of 1961.  On 04.12.2018 the Board has noted the appointment of seven members to the Board of the Bank by the Minister of Finance & Economic Affairs in terms of Sec. 8(1) and 8(5) of the People's Bank Act No. 29 of 1961 as evidence.	Complied with																					
3.(2) (x)	Re-election of directors filling casual vacancies	Such a situation does not arise since the Minister in Charge of the subject appoints Directors.	N/A																					

Section	Principle	Compliance & Implementation	Complied
3.(2) (xi)	Communication of reasons for removal or resignation of Director	As per the People's Bank Act Section 8, provides a director to resign by writing a letter to the minister of the subject. Further the minister can also remove a director by publishing a Gazette notification. Directors' resignation and the reason for such resignation are duly informed to Central Bank of Sri Lanka (CBSL).  Eight directors have resigned during the year and we have seen the letters sent CBSL as evidence in this regard.	Complied with
3.(2) (xii)	Prohibition of Directors or Employees of a bank becoming a Director at another bank	Bank has a process to identify whether a director of a bank is appointed, elected or nominated as a director of another bank based on the Declaration (Section 4.1) obtained and submitted to CBSL annually.  Further, Code of Best Practice Sec 2.1 of People's Bank also has a provision with regard to this.	Complied with
<b>3.(3)</b>	<b>Criteria to assess fitness and propriety of directors</b>		
3.(3) (i)	Age of Director should not exceed 70	None of the Directors have reached the age of 70 years during the year 2018.	Complied with
3.(3) (ii)	Directors should not be directors of more than 20 companies and not more than 10 companies classified as Specified Business Entities	None of the directors holds directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank during the year.	Complied with
<b>3.(4)</b>	<b>Management Functions delegated by the Board</b>		
3.(4) (i)	Understand and study delegation arrangements	The Board is empowered by the Section 32 of the People's Bank Act to delegate its powers to any officer of the bank and may revoke either wholly or in part as the case may be.	Complied with
3.(4) (ii)	Extent of delegation should not hinder Board ability to discharge its functions		Complied with
3.(4) (iii)	Review delegation arrangements periodically to ensure relevance to operations of the Bank	The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Bank.  Board has approved the revised delegated credit authority limits at the meeting held on 28.11.2016.	Complied with
<b>3.(5)</b>	<b>The Chairman and Chief Executive Officer</b>		
3.(5) (i)	Separation of roles	Roles of Chairman and CEO are held by two individuals appointed by the Board.	Complied with
3.(5) (ii)	Non-Executive Chairman and appointment of a Senior Independent Directors	The Chairman, Mr. Hemasiri Fernando a Non- Executive Director but is not deemed independent since he serves as a Chairman of subsidiary with another Director of the Bank.  Thus, Board has designated Dr. Aminda Perera, independent, Non- executive director as the Senior Director w.e.f. 24.04.2018. We have seen the Board minute No. 13.2 dated 24.04.2018 as evidence.  Further, Board has appointed Mrs. Sujatha Cooray as the Chairperson of the Bank who is an independent, non- Executive Director w.e. f. 09.11.2018.	Complied with
3. (5) (iii)	Disclosure of identity of Chairman and CEO and any relationships with the Board members	Bank has a process in this regard. As per the declaration obtained from the company secretary as evidence for the year 2018 there are no financial, business, family or other material / relevant relationships between, Chairman, CEO and among Directors.	Complied with

## CORPORATE GOVERNANCE REPORT

Section	Principle	Compliance & Implementation	Complied
3. (5) (iv)	Chairman to provide leadership to the Board	Board has a scheme of self – evaluation for the Board of directors which complies with the requirement.	Complied with
3. (5) (v)	Responsibility for agenda lies with Chairman but may be delegated to Company Secretary	Agenda for Board meetings is drawn up by the Board Secretary in consultation with the Chairman.	Complied with
3. (5) (vi)	Ensure that directors are properly briefed and provided adequate information	The Chairman ensures, that all Directors are properly briefed on issues arising at Board Meetings. Agenda and board papers are circulated to the directors giving adequate time for them to go through the papers.  Minutes of previous month's board meeting are distributed to the Board members and tabled at the subsequent board meeting for ratification/ approval.	Complied with
3. (5) (vii)	Encourage active participation by all directors and lead in acting in the interests of the Bank	Board has a scheme of self -evaluation for the Board of Directors which complies with the said requirement.	Complied with
3. (5) (viii)	Encourage participation of non-executive directors and relationships between non-executive and executive directors	Self- Evaluation process covers the contribution of non-executive directors.	Complied with
3. (5) (ix)	Refrain from direct supervision of KMP and executive duties	Chairman does not directly get involved in the supervision of key management personnel or any other executive duties.	Complied with
3. (5) (x)	Ensure effective communication with shareholders	Board maintains effective communication with the Government of Sri Lanka who is the main shareholder of the bank.	Complied with
3. (5) (xi)	CEO functions as the apex executive in charge of the day to day operations	As per the functions & responsibilities of the CEO, he is the apex executive-in charge of the day-to-day management of the bank's operations and business.	Complied with



Section	Principle	Compliance & Implementation	Complied
<b>Board appointed committees</b>			
3 (6)(i)	Establishing Board committees, their functions and reporting	<p>The Bank has established four Board Committees namely Board Audit Committee, Board Human Resources and Board Remuneration Committee, Board Nomination Committee and Board Integrated Risk Management Committee. Other than the above minimum requirement as per the CBSL direction the bank has appointed 4 additional Board sub committees namely Board Executive Credit Committee, Board Investment Banking Committee, Board IT Committee and Board Strategic Plan Review Committee.</p> <p>Reports /Minutes of such committees are submitted and tabled at the main board for the information and review by the Board. Annual Report 2018 includes individual reports of each Board subcommittee and the relevant page numbers of the reports of the main committees are given below. Such report includes a summary of its duties, roles and performance of each committee.</p> <p>Board Audit Committee on page 71, Board Human Resources and Board Remuneration Committee on page 72, Board Nomination Committee on page 73, Board Integrated Risk Management Committee on page 72, Board Executive Credit Committee on page 73, Board Investment Banking Committee on page 73, Board IT Committee on page 74 and Board Strategic Plan Review Committee on page 74.</p>	Complied with
<b>3 (6) (ii) Audit Committee</b>			
a.	The chairman of the committee to be an independent non-executive director	Mr. Jehan P. Amaratunga, Non- Independent, Non- Executive director has been appointed as the Chairman of the Committee by the Board.	Non - complied
	Possesses qualifications and related experience	Mr. Jehan P. Amaratunga is a fellow member of the Institute of Chartered Accountants of Sri Lanka, Fellow of the Institute of Management Accountants, UK. and possesses over 35 years of experience in accounting and auditing.	Complied with
b.	Committee to comprise solely of non-executive directors	<p>All other members of the committee are non- executive directors. They are Mr. G.D.C. Ekanayake and Mr. M.H. Jamaldeen.</p> <p>With the reconstitution of the Board sub committees by the Board on 04.12.2018, Mr. K.D.N Ranjith Asoka and Ms. Damitha Ramanayake have been appointed to the BAC.</p>	Complied with

## CORPORATE GOVERNANCE REPORT

Section	Principle	Compliance & Implementation	Complied
c.	Audit Committee functions	<p>Committee has noted the correspondence dated 06.06.2018 from Auditor General's Dept. in relation to re- appointment of Messrs. Ernst &amp; Young, External Auditor of the Bank for the year ended 31.12.2018.</p> <p>Committee has discussed in detail the issues raised by the CBSL statutory examination report and the action taken by the bank to resolve them with the action plan and target dates.</p> <p>Committee has reviewed and discussed the relevant accounting standards as and when required.</p> <p>Ms. Ernst &amp; Young has been appointed by the Auditor General to carry out the audit for the year 2018. No resignation or dismissal of the auditor has taken place during the year 2018. Audit partner has not exceeded five years (appointed in 2017), and that the particular Audit partner is not re-engaged for the audit before expiry of three years. External Auditor's fee has been decided by the AG and committee has granted approval for Audit Fee.</p>	Complied with
d.	Review and monitor external auditor's independence and objectivity and the effectiveness of the audit processes	Auditor general (AG) has appointed Ms. E & Y as the external auditors to carry out the external audit for the year end 2018, after obtaining representations on their independence and that the audit is carried out in accordance with SLAuS. AG has issued a letter of appointment in this regard.	Complied with
e.	Provision of non-audit services by an external auditor	This is not relevant since the bank's auditor is the Auditor General.	N/A
f.	Determines scope of audit	BAC has to review the nature and the scope of the audit with the external auditors in accordance with SLAuS before the audit commences.	Non-complied. Committee will initiate action to discuss and finalize the nature and scope of the audit, with the external auditors going forward.
g.	Review financial information of the Bank	<p>Committee has a process to review financial information of the Bank when the quarterly and annual audited financial statements and the reports prepared for disclosure are presented to the committee by the Chief Financial Officer.</p> <p>CFO has presented the quarterly financial statements and key financial ratios and dashboard for the quarter ended 31.03.2018. The committee has recommended the same for submission to the Board.</p> <p>Committee has reviewed and recommended the Annual Financial Statements of the Bank for the year end 2018.</p>	Complied with

Section	Principle	Compliance & Implementation	Complied
h.	Discussions with External Auditor on interim and final audits	Auditor General's representative is resident at the Bank and Committee meets them regularly and she is a representative at the BAC meetings, by invitation.	Complied with
i.	Review of Management Letter and Bank's response	Board Audit Committee has to review the extend auditor's management letter for the year ended 31.12.2017 and the management's responses there to.	Non-complied. Committee will initiate action to discuss and finalize the nature and scope of the Audit, with the external Auditors going forward
j.	Review of Internal Audit function	<p>Committee has discussed the scope, functions and staff strength of the internal audit department. CIA has presented the Audit Plan 2018 to the committee and BAC has discussed the scope of the Internal Audit and the coverage of the number of branches and approved the same. Committee has reviewed the Status of Results of internal audit reports submitted with regard to the Bank's depts.</p> <p>Performance appraisal of the CIA for the year 2017, has been tabled at the committee and committee has reviewed the CIA's performance and further agreed with CIA's views made on AGM Internal Audit. Appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function has not arisen during the year 2018. Resignations has not arisen during the year 2018. Head of the Internal Audit dept. reports directly to the BAC. Hence the function is independent and the audits are performed with impartiality, proficiency and due professional care.</p>	Complied with
k.	Internal Investigations	Such an incident has not occurred during the current year 2018	Complied with
l.	Attendees at Audit Committee Meetings	This is not relevant since there are no executive directors in the Board of People's Bank.	Complied with
m.	Explicit authority, resources and access to information	<p>Board approved Code of Best Practice in Corporate Governance Section 6.1 (d) speaks of the rights of the Board Audit Committee and ensures that the committee has such authority.</p> <p>Committee has reviewed the Charter/ TOR of the BAC and recommended the same for the approval of the Board.</p>	Complied with
n.	Regular Meetings	BAC has held four (04) meetings during the year 2018 and minutes of such meetings are maintained by the company secretary.	Complied with
o.	Disclosure in Annual Report	Board has disclosed in the Annual Report 2018 on page 71, details of the activities of Board Audit Committee, the number of meetings and the details of attendance of each individual director at such meetings are disclosed on page 51.	Complied with
p.	Maintain Minutes of meetings	The Company secretary has been appointed as the Secretary of Board Audit Committee and keeps detailed minutes of the meetings.	Complied with
q.	Whistle blowing policy and relationship with external auditor	Board approved Whistle Blowing Policy established in the year 2013 has been reviewed again on 03.07.2017 at the BAC.	Complied with

## CORPORATE GOVERNANCE REPORT

Section	Principle	Compliance & Implementation	Complied
<b>Human Resources &amp; Remuneration Committee</b>			
3 (6) (iii) (a)	Remuneration policy relating to Directors, CEO/GM and key Management personnel of the Bank. <b>GRI 102-35,102-36</b>	Remuneration of the directors are decided by the guidelines set up by the Ministry of Finance.  Committee has implemented a Compensation / Remuneration Policy to determine the remuneration (salaries, allowances and other financial payments) relating to CEO and KMPs.	Complied with
(b)	Set Goals and targets for the directors, CEO/GM and the key management personnel	Goals and targets for CEO and the KMPs have addressed through the Action Plan 2018, prepared based on Strategic Plan 2016-2020. Board has granted approval for the action plan 2018 at the meeting held on 26.01.2018.  However, Goals and targets for CEO and the key management personnel (DGMs and AGMs) for the year 2018 has to be established and submitted through HRRC.	Complied with. However, this process will be strengthened to submit Goals and targets for CEO and the key management personnel (DGMs and AGMs) through HRRC, going forward.
(c)	Evaluating the performance of the CEO and Key Management Personnel	Board has considered the evaluations of the performance of the CEO and KMP against the set targets and goals.  However, Committee has to consider evaluations of the performance of the CEO and key management personnel against the set goals and targets for the year 2018.	Complied with. However, this process will be strengthened to consider evaluations of the performance of the CEO and key management personnel against the set targets and goals through HRRC, going forward
(d)	The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.	Board approved HRRC Charter evidence that the CEO shall attend all meetings of the committee except when matters relating to him are being discussed.	Complied with

Section	Principle	Compliance & Implementation	Complied
<b>Nominations Committee</b>			
3(6) (iv) a.	Appointment of directors, CEO and KMP	<p>Directors are appointed by the Minister in charge of the subject as per the provision of the People's Bank Act.</p> <p>Procedure to select/appoint a new CEO is in place in the Succession Plan document approved by the Board on 25.05.2017.</p> <p>Further, the Nomination Committee has implemented a procedure to select / appoint KMPs of the Bank.</p>	Complied with
b.	Re-election of directors	This requirement does not arise since Directors are appointed by the Minister in charge of the subject as per the provision of the People's Bank Act.	Complied with
c.	Eligibility criteria for appointments to key managerial positions including CEO	<p>Board has approved the selection criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, DGMS and AGMs (who are the key management personnel) included in their job descriptions. JDs have been submitted to the BNC on 17.11.2017.</p> <p>Further, Committee has granted approval for the evaluation criteria for the selection and appointment of KMPs in the Bank.</p>	Complied with
d.	Fit & Proper persons	<p>Declarations of Directors, CEO and have been submitted to the CBSL through the Board.</p> <p>Declarations and affidavits of Officers Performing Executive Functions (Key Management Personnel), have been submitted to the CBSL through the Board.</p>	Complied with
e.	Succession Plan and new expertise	<p>Proper succession arrangement for directors of the bank has to be in place for better governance.</p> <p>Board approved Succession Plan for CEO and other Key Management Personnel is in place.</p> <p>However, existing succession plan need to be revised at least annually in order to have a proper succession arrangement for KMPs.</p>	Non - Complied
f.	Committee Chairman and preferably majority of directors be Independent. The CEO may be present at meetings by invitation.	<p>Committee is chaired by Mr. Hemasiri Fernando who is a Non-Independent Director. Other members are Ms. G.D.C. Ekanayake, (Non-Independent), Mr. Jehan Amaratunga (Non-Independent) and Mr. K.D.N Ranjith Asoka (Non-Independent).</p> <p>CEO participates at the NC meetings by invitation.</p> <p>Committee has to be chaired by an Independent Director and Committee preferably be constituted with a majority of Independent Directors to comply with the direction.</p>	Non - Complied
<b>3 (6) (v) Integrated Risk Management Committee/Board Risk Management Committee</b>			
a.	Composition of BIRMC	<p>Committee consists of three non-executive directors, CEO/GM and DGM –Risk Management. Chief Internal Auditor and AGM Compliance participate by invitation.</p> <p>Non-executive directors of the Committee are Mr. Jehan P Amaratunga (Chairman), Ms. G.D.C Ekanayake, Mr. K.D. N Ranjith Asoka, Mr D Widanagamachchi and Mr. Damitha Ratnayake.</p>	Complied with

## CORPORATE GOVERNANCE REPORT

Section	Principle	Compliance & Implementation	Complied
b.	Risk Assessment	IRMC has implemented a procedure to assess risks such as credit, market, strategic and operational risks of the Bank on a monthly basis through relevant risk indicators and management information and such risks are reported to IRMC through Quarterly risk report and Risk Matrix table.	Complied with
c.	Review of management level committees on risk	Committee has evaluated the adequacy and effectiveness of all managerial level committees against the current Terms of References (TOR).	Complied with
d.	Corrective action to mitigate risks exceeding prudential levels	Committee has reviewed and considered risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied with
e.	Frequency of meetings	IRMC has held only 03 meetings during the financial year 2018 due to the non- availability of proper Board during the latter part of the year. However, Risk assessment papers for the two quarters ended 30.06.2018 and 30.09.2018 has submitted to the meeting held on 31.12.2018.	Complied with
f.	Actions against officers responsible for failure to identify specific risks or implement corrective action	At the Bank, risks are identified by the Integrated Risk Management Committee and as such decisions are taken collectively.	Complied with
g.	Risk assessment report to Board	Minutes of the IRMC submitted to the Board for the next immediate meeting seeking the board's views, concurrence and/or specific directions.	Complied with
h.	Compliance function	<p>Committee has established a compliance function to assess the Bank's compliance with laws, regulations, and regulatory guidelines. Compliance Officer who has been designated as a KMP submits monthly reports on statutory and mandatory requirements/ regulations and the status of compliance to the Board and Report on Compliance Risk to the BIRMC.</p> <p>Quarterly Report on Compliance Risk includes number of compliance breaches reported during the quarter, LKR value of all regulatory other fines imposed on the Bank during the quarter and number of STRs reported by the network during the quarter.</p> <p>Compliance function annually obtains a confirmation from all dept. heads to ensure Bank's compliance with internal controls and approved policies on all areas of business operations of the Bank.</p>	Complied with
<b>3. (7)</b>	<b>Related Party Transactions</b>		
3. (7) (i)	Avoid conflict of interest GRI 102-25	<p>Code of Best Practice of the Bank Section 2.14 (approved by the Board on 30.09.2011) includes a documented Related Party Policy which speaks on categories of related parties, and for the Bank to avoid any conflicts of interest that may arise from any transaction of the Bank with them.</p> <p>Further, Head of Finance has established a Related Party Transaction Policy which has been recommended by the BAC and approved by the Board.</p> <p>This policy has been further revised based on CBSL recommendations and approved by the Board on 19.03.2018.</p>	Complied with
	Related party transactions covered by direction	Board approved Code of Best Practice of the Bank Section 2.14 includes a documented policy which identifies types of related party transactions and for the Bank to avoid any conflicts of interest that may arise from any transaction with the related parties.	Complied with

Section	Principle	Compliance & Implementation	Complied
3. (7) (iii)	Monitoring of related party transaction defined as 'more favorable treatment'	<p>As per the Board approved Code of Best Practice of the Bank Section 2.14 there is a documented policy which identifies types of related party transactions and to ensure that the Bank does not engage in such transactions in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the bank carrying on the same transaction with the Bank.</p> <p>A preventive or a detective system has to be developed at the bank where the bank inserts the ID's and the BRC numbers of related parties in to the system and the monitoring is to be carried out accordingly to ensure that the Bank would not offer any "more favorable treatment" to related parties than that accorded to other constituents of the Bank carrying on the same business.</p>	Non - Complied
3. (7) (iv)	Granting accommodation to a director or close relation to a director	As per the Board approved Code of Best Practice Section 2.14.D there is a documented policy which speaks on granting accommodation to any of its directors or to a (close relation ) and key management personnel, and that 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 favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board.	Complied with
3. (7) (v)	Accommodations granted to persons, or concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank	Board approved Code of Best Practice of the Bank Section 2.14 includes a documented policy as required by point No. 3(7)(v).	Complied with
3. (7) (vi)	Favourable treatment or accommodation to bank employees or their close relations	As per the Board approved Code of Best Practice Section 2.14.G there is a process in place at the Bank in this regard. No accommodation has given to employees on a favorable basis other than the general schemes applicable to all employees of the Bank, such as staff loan facilities.	Complied with
3. (7) (vii)	Remission of accommodations subject to Monetary Board approval	As per the Board approved Code of Best Practice Section 2.14.G there is a process in place at the Bank in this regard.	Complied with
<b>Disclosures</b>			
3.(8) (i)	Publish annual and quarterly financial statements	<p>Bank prepares and publishes financial statements accordingly.</p> <p>Quarterly financial statements have been published in the newspapers in abridged form, in Sinhala, Tamil and English.</p>	Complied with
3. (8) (ii)	Disclosures in 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.	The statement to this effect is included in the Directors' Responsibility for Financial Reporting on page 144 of the Annual Report 2018.	Complied with

## CORPORATE GOVERNANCE REPORT

Section	Principle	Compliance & Implementation	Complied																		
b.	The report by the Board on the Bank's internal control mechanism	Disclosed in the "Directors' Statement on Internal Control" on page 75 in the Annual Report 2018.	Complied with																		
c.	External auditor's certification on the effectiveness of the internal control mechanism	Auditor General's Assurance Report' on Internal Controls Disclosed under on page 77 in the Annual Report 2018.	Complied with																		
d.	Details of directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank;	<p>Details of directors, including names, qualifications and experience disclosed under Profiles of Directors are given on pages 26 to 27.</p> <p>Transactions with Directors are disclosed on page 238.</p> <p>Directors Emoluments has disclosed under Note 14 to the Financial Statements on page 182.</p>	Complied with																		
e.	Total accommodations granted to each category of related parties and as a percentage of the Bank's regulatory capital	<p>Total net accommodation granted to each category of related party during the year 2018 as a percentage of the Bank's regulation capital is given below:</p> <table border="1"> <thead> <tr> <th></th> <th>LKR '000</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Key Management Personnel (KMPs)</td> <td>68,690</td> <td>0%</td> </tr> <tr> <td>Subsidiaries</td> <td>17,471,287</td> <td>18%</td> </tr> <tr> <td>Associates</td> <td>-</td> <td>-</td> </tr> <tr> <td>Government and Government related entities</td> <td>1,018,853,146</td> <td>1043%</td> </tr> </tbody> </table>		LKR '000	%	Key Management Personnel (KMPs)	68,690	0%	Subsidiaries	17,471,287	18%	Associates	-	-	Government and Government related entities	1,018,853,146	1043%	Complied with			
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f.	Aggregate values of remuneration to, and transactions with KMPs	<table border="1"> <thead> <tr> <th>Category</th> <th>LKR 000'</th> </tr> </thead> <tbody> <tr> <td>Short-term employee benefits</td> <td>530,346</td> </tr> <tr> <td>Post-employment pension</td> <td>207,278</td> </tr> <tr> <td>Termination benefits</td> <td>-</td> </tr> <tr> <td>Share-based payments</td> <td>-</td> </tr> <tr> <td>Other Long Term Benefits</td> <td>-</td> </tr> <tr> <td>Accommodations</td> <td>70,623</td> </tr> <tr> <td>Deposits</td> <td>282,435</td> </tr> <tr> <td>Investments</td> <td>987</td> </tr> </tbody> </table>	Category	LKR 000'	Short-term employee benefits	530,346	Post-employment pension	207,278	Termination benefits	-	Share-based payments	-	Other Long Term Benefits	-	Accommodations	70,623	Deposits	282,435	Investments	987	Complied with
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g.	External auditors certification of compliance	Board has obtained the Auditor General's Factual Finding Report on Corporate Governance. All findings of the Auditors have been incorporated in this Corporate Governance Report.	Complied with																		
h.	Report confirming compliance with prudential requirements, regulations, laws and internal controls	This has been disclosed on Directors' Responsibility for Financial Reporting on page 144 of the Annual Report 2018.	Complied with																		
i.	Non-compliance Report GRI 102-34	As per the Corporate Governance report there were no supervisory concern lapses in the Bank's Risk Management Systems or non-compliance with these directions that have been pointed out by the Director of Banks Supervision of the CBSL.	Complied with																		



## BOARD AUDIT COMMITTEE REPORT (BAC)

The Board Audit Committee (BAC) of the Bank was constituted in accordance with the provision of Banking Act Direction No. 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka. Proceedings of BAC were based on the charter adopted by the Board of Directors for the functioning of the Committee.

The committee comprises of 3 non executive independent directors as at the end of the year.

- ◆ Mr. D. Widanagamachchi (Chairman)
- ◆ Ms. Damitha Rathnayaka
- ◆ Mr. K.D.N Ranjith Asoka

The quorum for a BAC meeting is two (02) members.

The Senior Deputy General Manager (HR & Legal/ Sect. to the Board) functions as the Secretary to the BAC. Chief Internal Auditor, Deputy General Manager (Risk Management) and Assistant General Manager (Compliance) attend the BAC meetings on invitation. The Superintendent of the Government Audit also attends these meetings.

The BAC in particular

- ◆ Reviews the financial reporting process to ensure the compliance with financial reporting requirements under the statute.
- ◆ Examines the system of internal control and management of business risks.
- ◆ Reviews the audit processes, both external and internal.
- ◆ Reviews the procedures in place for monitoring compliance with laws and regulations and in particular the guidelines of the Central Bank of Sri Lanka.

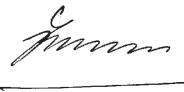
The Committee during the year under review attended to the following.

- a. Approved the Annual Audit plan prepared based on risk profiles of the areas of the Bank for the year 2018.
- b. Reviewed and discussed the Management Letter and the Report of the Auditor General issued in terms of Section 13 (7) (a) of the Finance Act No. 38 of 1971 for the year 2017 and the management responses thereon.
- c. Reviewed quarterly financial performance of the Bank for the year 2018 and recommended to submit the same to the Board.
- d. Reviewed and discussed issues raised at CBSL Statutory Examinations and follow-up examinations in 2016/ 2017 and monitored the progress of rectification.
- e. Periodic review of internal audit reports and the performance of the Internal Audit Department.
- f. Reviewed Information System Procedures and recommended appropriate changes and monitored the progress of their implementation.

Four (04) meetings were held during the financial year ended 31st December 2018. The BAC considered the internal audit reports, the deficiencies observed therein, responses given by the respective DGMM/ Heads of the Departments and monitored corrective actions taken to rectify deficiencies observed. The minutes of the BAC meetings are reported to the Board for information.

The BAC also followed up on corrective measures taken by the management during the year 2018 on matters raised by CBSL Statutory Examination Reports and by the Auditor General in the report for the year ended 31st December 2017.

The BAC ensured the provision of all information and documents required by the Auditor General for the purpose of audit and compliance with Sri Lanka Accounting Standards in preparation and presentation of Financial Statements. The BAC is of the view that adequate controls and procedures are in place and Charter of the BAC were complied with all material aspects.



**Nilanka Mevan Pieris**  
*Chairman*  
*Board Audit Committee*

28th March 2019

## BOARD SUBCOMMITTEE REPORT

### BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE (BHRC) REPORT

#### Scope

The BHRC is responsible for formulating human resource and remuneration policies and to initiate strategies in relation to human resource management. The Committee ensures the policies formulated by them are reviewed regularly and are adhered at all circumstances.

The Committee plays a main role in recruitments, determining salaries and other benefits to the employees. The Committee has also been vested with the authority to consider extensions of service of the Executive Management, and make recommendations to the Board.

The Committee is in charge of reviewing employment contracts for the members of the Corporate and Executive Management.

#### Composition

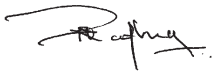
The Committee consists of at least two Directors of the Board and the Chief Executive Officer / General Manager (CEO / GM). The current members of BHRC are :

- ◆ Mr Hemasiri Fernando –Chairman
- ◆ Mr Anton Hemantha
- ◆ Mr N Vasantha Kumar - CEO / GM

DGM (HR) attends meetings on invitation and any other officers of the Bank may be present at meetings by invitation.

#### Committee Meetings

The Committee meets once in two months to attend to the matters within its scope and reports to the Board. The quorum for the meeting of BHRC is two Directors of the Board and the CEO / GM.



#### Rohan Pathirage

SDGM – Human Resource & Legal / Secretary to the Board of Directors  
Secretary to Board Human Resources and Remuneration Committee (BHRC)

27th March 2019

### BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC) REPORT

#### Scope

The BIRMC is responsible for the implementation of the risk strategy of the Bank as laid down by the Board of Directors. The Committee has been granted the responsibility of approving frameworks for efficient functioning of the business units and monitoring of risks.

The Committee is in charge of reviewing the risk profile of the Bank within the context determined by the Board.

The Committee is also responsible for the assessment of all risks pertaining to credit, market, liquidity, operational and strategic risks, using appropriate risk indicators and management information and making necessary recommendation to the Board.

Among other responsibilities pertaining to risk management, the Committee monitors oversights of the implementation and risk management in relation to credit, finance, operations and legal / compliance and takes prompt corrective actions to mitigate the risk effects.

#### Composition

The Committee consists of at least three Directors of the Board, the Chief Executive Officer / General Manager and the DGM (Risk Management). The current members of BIRMC are ;

- ◆ Mr Jehan P Amaratunga (Chairman)
- ◆ Ms G D C Ekanayake
- ◆ Mr K D N Ranjith Asoka
- ◆ Mr N Vasantha Kumar - CEO / GM

Any other officers of the Bank may be present at meetings by invitation.

#### Committee Meetings

The Committee meets quarterly to attend to the matters in relation to risk management and makes its recommendations to the Board. The quorum for the meeting of BIRMC is two Directors of the Board and the CEO / GM.



#### Rohan Pathirage

SDGM – Human Resource & Legal / Secretary to the Board of Directors  
Secretary to Board Integrated Risk Management Committee (BIRMC)

27th March 2019

## BOARD EXECUTIVE CREDIT COMMITTEE (BECC) REPORT

### Scope

The BECC has been authorized to approve all credit proposals over the limit of CEO/General Manager and to the members of the staff above the grade of Assistant General Manager.

The BECC is also empowered to consider credit rescheduling proposals and lump sum settlement.

### Composition

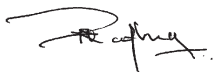
The Committee consists of at least two Directors of the Board, the Chief Executive Officer / General Manager. The current members of BECC are

- ◆ Dr Aminda Perera
- ◆ Mr Anton Hemantha
- ◆ Mr. Chris Rajendran
- ◆ Mr N Vasantha Kumar – CEO / GM

Any other officers of the Bank may be present at meetings by invitation.

### Committee Meetings

The Committee meets at least twice a month. The quorum for the meeting of BECC is three members including two directors of the Board.



#### Rohan Pathirage

SDGM – Human Resource & Legal / Secretary to the Board of Directors  
Secretary to Board Executive Credit Committee (BECC)

27th March 2019

## BOARD NOMINATION COMMITTEE (BNC) REPORT

### Scope

Main function of the BNC is to implement a procedure to select / appoint a CEO / GM and key management personnel. The Committee sets the criteria for the eligibility to be considered for appointment of promotion to the post of CEO / GM and the key management positions.

The Committee is also responsible for the consideration and recommendation from time to time, the requirements of additional, / new expertise and the succession arrangements for retiring key management personnel.

### Composition

The Committee consists of at least three Directors of the Board. The current members of BNC are ;

- ◆ Mr Hemasiri Fernando (Chairman)
- ◆ Mr Jehan P Amaratunga
- ◆ Ms G D C Ekanayake

The CEO / GM attends the meeting on invitation.

### Committee Meetings

The Committee meets on a quarterly intervals and reports to the Board. The quorum for the meeting of BNC is three Directors of the Board.



#### Rohan Pathirage

SDGM – Human Resource & Legal / Secretary to the Board of Directors  
Secretary to Board Nomination Committee (BNC)

27th March 2019

## BOARD INVESTMENT BANKING COMMITTEE (BIBC) REPORT

### Scope

The BIBC has been constituted to regularly review investment banking model and operations of Investment Banking unit of the Bank. The Committee is authorized to grant approval for share trading limits, new investment products and utilization of stock brokers, trading platforms and IT Systems.

### Composition

The Committee consists of at least two Directors of the Board, the Chief Executive Officer / General Manager, SDGM (Business Banking), Head of Treasury and Investment Banking and the DGM (Risk Management). The current members of BIBC are ;

- ◆ Mr Jehan P Amaratunga – Director (Chairman of the Committee)
- ◆ Ms G D C Ekanayake – Director
- ◆ Mr K D N Ranjith Asoka – Director
- ◆ Mr N Vasantha Kumar – CEO / GM
- ◆ Mr Rasitha Gunawardana – SDGM (Business Banking)
- ◆ Mr Clive Fonseka – Head of Treasury and Investment Banking

Any other officers of the Bank may attend the meetings on invitation.

### Committee Meetings

The Committee meets quarterly to attend to the matters empowered to it. The quorum for the meeting of BIBC is three members including two Directors of the Board.



#### Rohan Pathirage

SDGM – Human Resource & Legal / Secretary to the Board of Directors  
Secretary to Board Investment Banking Committee (BIBC)

27th March 2019

## BOARD SUBCOMMITTEE REPORT

### BOARD IT COMMITTEE (BITC) REPORT

#### Scope

The BITC has been established to ensure the degree of reliance on information technology and to assist the Bank with the growing demands of IT Governance.

The Committee is responsible to set overall strategies for IT and recommend to the Board the newest technologies to cater the upcoming demands.

#### Composition

The Committee consists of two Directors of the Board. The current members of BITC are ;

- ◆ Mr Hemasiri Fernando (Chairman)
- ◆ Mr Jehan Amaratunga
- ◆ Mr K D N Ranjith Asoka

Any other officers of the Bank may attend the meetings on invitation.

The quorum for the meeting of BITC is two members.



#### Rohan Pathirage

*SDGM – Human Resource & Legal / Secretary to the Board of Directors  
Secretary to Board Information Technology Committee (BITC)*

27th March 2019

### BOARD STRATEGIC PLAN REVIEW COMMITTEE (BSPRC) REPORT

#### Scope

The Board Strategic Plan review Committee was established to regularly review the smooth implementation of objectives cited in the Strategic Plan. The Committee is authorized to review the performance of all business heads and to assist them to achieve business goals within stipulated time period.

#### Composition

The Committee shall be appointed by the Board and it consists of at least two Directors, CEO/General Manager, S/ DGM-Strategic Planning & Performance Management.

The current members of BSPRC are:

- ◆ Mr. Hemasiri Fernando – Chairman
- ◆ Mr. Jehan P. Amaratunga – Director
- ◆ Ms. G.D. Chandra Ekanayaka – Director
- ◆ Mr. N. Vasantha Kumar – CEO/GM
- ◆ Ms. Chandani Werapitiya – DGM (SP & PM)

Any other officer of the Bank may be present at meetings by invitation.

#### Committee Meetings

The Committee meets quarterly and quorum for the meeting is two members.



#### Rohan Pathirage

*SDGM – Human Resource & Legal / Secretary to the Board of Directors  
Secretary to the Board Strategic Plan Review Committee (BSPRC)*

27th March 2019

## DIRECTORS' STATEMENT ON INTERNAL CONTROLS

### RESPONSIBILITY

In line with the Banking Act Direction No. 11 of 2007, section 3 (8) (ii) (b), the Board of Directors presents this report on Internal Controls over Financial Reporting of the People's Bank ("The Bank").

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at the Bank. In considering such adequacy and effectiveness, the Board recognizes 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 frauds.

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

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

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

### KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING.

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

- ◆ Various committees are established by the Board to assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- ◆ The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non compliance. Internal Audit assignments 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 (BAC) for review at their periodic meetings.
- ◆ The BAC of the Bank reviews internal control issues identified by the Internal Audit Department, regulatory authorities and 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 same. The minutes of the BAC meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Details of the activities undertaken by the BAC of the Bank are set out in the Board Audit Committee Report (Refer Page 71).
- ◆ In assessing the internal control system, identified officers of the Bank continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. The Internal audit department of the Bank continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis.
- ◆ In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure are being made whilst further strengthening of processes will take place pertaining to impairment of loans and advances, credit card operations, management information system and financial statement disclosures related to risk management and related parties. The assessment did not include subsidiaries of Bank.
- ◆ Board has given due consideration for the adoption of SLFRS 9 "Financial Instruments" which will be applicable for financial reporting periods beginning on or after 1st January 2018. Bank is in the process of finalizing the assessment of the day 1 impact of the application of the standard SLFRS 9 poses a significant impact on impairment assessment as it shifts the accounting for provisioning for credit risk on the basis of expected loss from an incurred credit loss model based on LKAS 39.
- ◆ The comments made by the External Auditors in connection with the internal control system during the financial year 2018 were taken into consideration and steps have been taken to incorporate them where appropriate. Further appropriate measures have been initiated to develop procedures to improve the controls documentation on identification of related party transactions in the ensuing year.

## DIRECTORS' STATEMENT ON INTERNAL CONTROLS

### 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 Central Bank of Sri Lanka.

### REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' Statement on internal control included in the Annual Report of the Bank for the year ended 31 December 2018 and reported to the Board that nothing has come to their attention that causes them to believe that the Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

The Assurance Report of the External Auditors in connection with internal control over financial reporting is appearing on page 145 of the Annual Report.

For and on behalf of the Board.



**Nilanka Mevan Pieris**  
*Chairman*  
*Board Audit Committee*

28th March 2019

# AUDITOR GENERAL'S ASSURANCE REPORT ON INTERNAL CONTROLS



## ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



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எனது இல. }  
My No. }

BAF/D/PB/IC/2018

මගේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி }  
Date }

09 May 2019

### Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of People's bank

#### INTRODUCTION

This report is to provide assurance on the Directors' Statement on Internal Control over Financial reporting ("Statement") of People's Bank included in the annual report for the year ended 31 December 2018. In carrying out this assurance engagement I was assisted by a firm of Chartered Accountants in public practice.

#### MANAGEMENT'S RESPONSIBILITY

Management's 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 the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

#### MY RESPONSIBILITY AND COMPLIANCE WITH SLSAE 3050

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

#### SUMMARY OF WORK PERFORMED

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

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

SLSAE 3050 does not require me to consider whether the Statement covers all risk and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require me 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.

#### CONCLUSION

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the Annual Report is inconsistent with my understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

**W. P. C. Wickramaratne**  
Auditor General



# REDEFINING ALWAYS

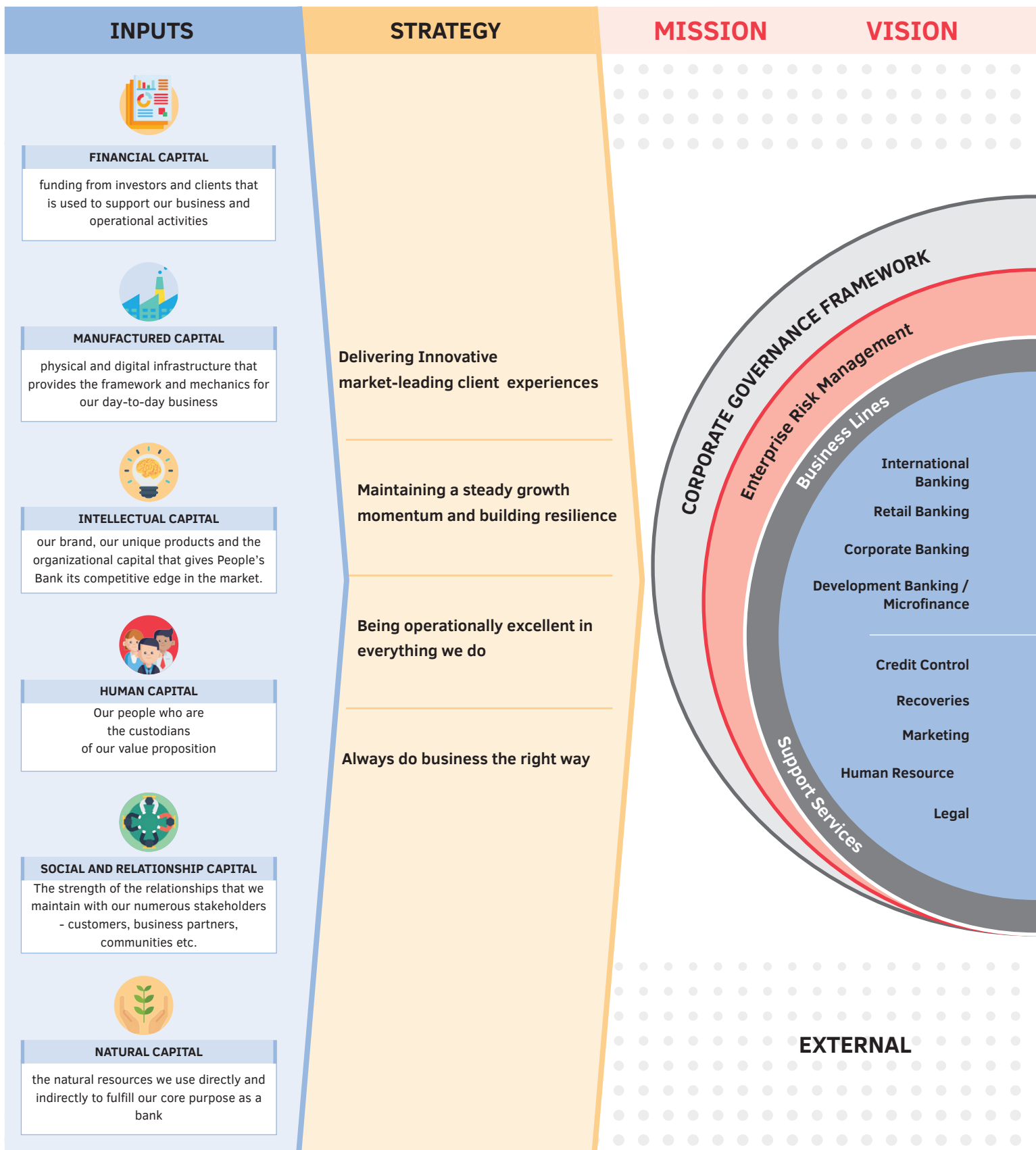
You don't need to depend on anyone but yourself. Our Self Banking Units are open 24x7 for your convenience.

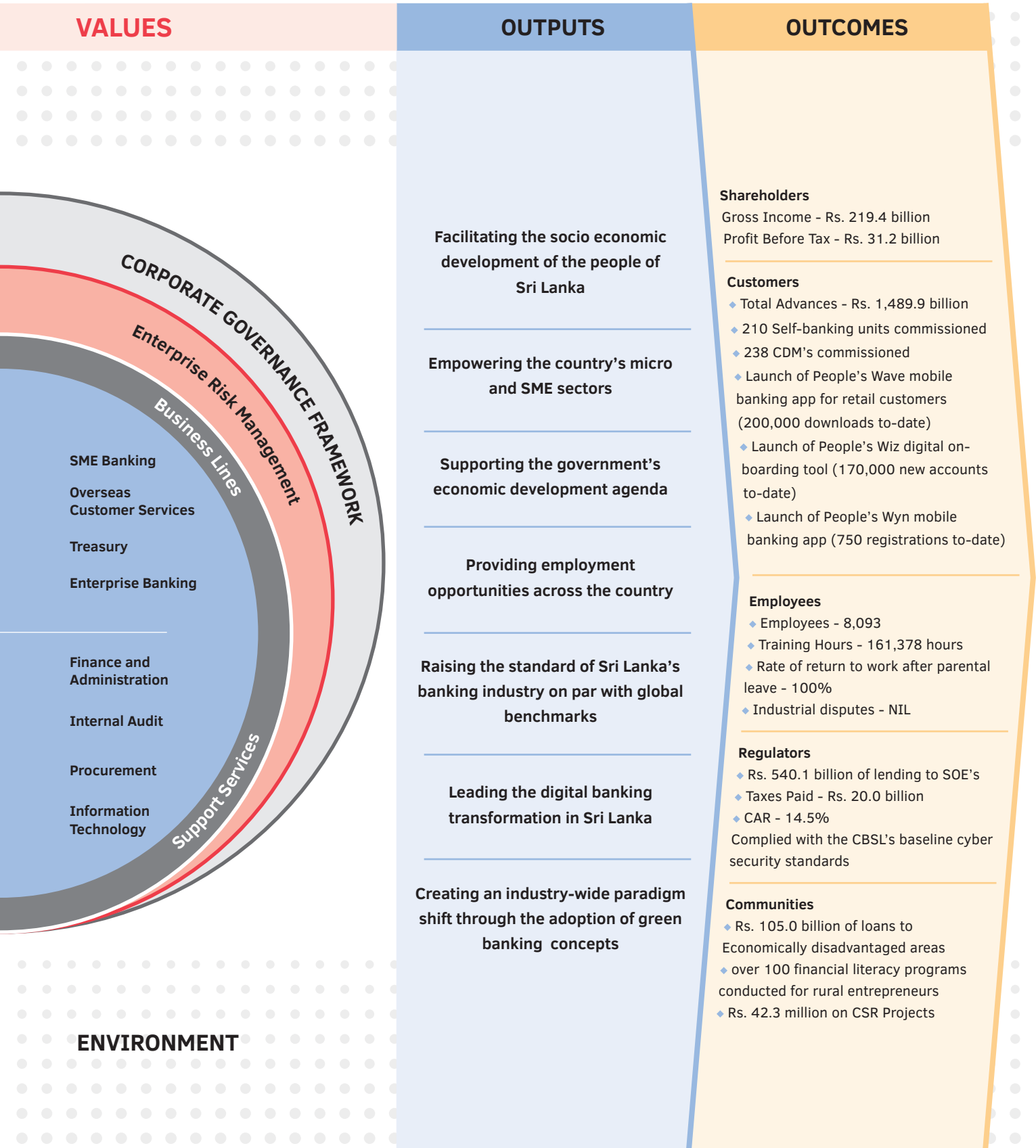






## BUSINESS MODEL





## STAKEHOLDER ENGAGEMENT

GRI 102-40,102-42,102-43,102-44

Stakeholder Engagement has proven to be a powerful tool that has continued to make a strong positive contribution to our business by providing key inputs to our strategic planning process. We find that engaging with our stakeholders on a continuous and ongoing basis gives us access to outside opinions on our business, enabling us to identify opportunities to improve our business model and drive innovation to revamp key stakeholder deliverables.

Moreover, understanding and responding to their concerns quickly and effectively not only earn their trust, but also enable the Bank to improve its competitive position in the market.



Method of engagement	Frequency of engagement	Key topics and concerns raised	Our Strategic Response
<b>Shareholders</b>			
Annual General Meeting	Annually	<ul style="list-style-type: none"> <li>Review of the prior financial year's performance</li> </ul>	Timely publication of the Annual Report and Quarterly financial statements and making them available to shareholders. Provide detailed and timely disclosures on our performance, risk management, assets quality and sustainability etc.
Annual Report	Annually	<ul style="list-style-type: none"> <li>Financial information and disclosures</li> <li>Sustainable growth in earnings</li> </ul>	
Quarterly financial statements	Quarterly	<ul style="list-style-type: none"> <li>Sound corporate governance practices</li> <li>Risk management</li> <li>Corporate sustainability</li> </ul>	
Corporate website	Continuous	<ul style="list-style-type: none"> <li>Future outlook and growth potential</li> </ul>	
Media releases and press conferences	Ongoing	<ul style="list-style-type: none"> <li>Group news and latest information and updates on current affairs</li> </ul>	
<b>Customers</b>			
Relationship management	Ongoing	<ul style="list-style-type: none"> <li>Affordability of services</li> <li>Quality of service</li> <li>Convenience and accessibility</li> </ul>	We have set up a customer call centre and our corporate website to provide information. We have also set up an extensive network to provide easy access. Also set up digital branches and an innovation centre to provide cutting-edge products to customers.
Satisfaction surveys	Ongoing	<ul style="list-style-type: none"> <li>Innovation</li> <li>Privacy of information</li> </ul>	
Customer networking	Ongoing		
Corporate website	Ongoing		

Method of engagement	Frequency of engagement	Key topics and concerns raised	Our Strategic Response
<b>Employees/Trade Unions</b>			
Performance appraisals	Annually	<ul style="list-style-type: none"> <li>◆ Transparent, fair and attractive remuneration</li> <li>◆ Opportunities for skill development</li> </ul>	Provide continuous training to employees, provide a dynamic and motivating work environment, attractive remuneration based on industry standards, encourage employees to follow corporate values
Collective bargaining	Ongoing	<ul style="list-style-type: none"> <li>◆ Career progression</li> <li>◆ Workplace safety</li> </ul>	
Muti-level staff meetings	Ongoing	<ul style="list-style-type: none"> <li>◆ Dignity of labour</li> </ul>	
Staff orientation	Ongoing		
Training programmes	Ongoing		
Group intranet and email	Ongoing		
<b>Regulators/Legislators</b>			
Onsite surveillance	Ongoing	Regulatory compliance	Timely submission of relevant information and reports, maintain an open dialog with authorities, contribute towards the development of the industry
Regulatory reporting	Annually, quarterly, monthly, Weekly	Corporate governance Risk management Sustainable business practices	
Industry forums and meetings	Ongoing		
Press releases	Ongoing		
<b>Suppliers</b>			
Supplier surveys	Ongoing	<ul style="list-style-type: none"> <li>◆ Ease of transactions</li> <li>◆ Value addition and supplier development</li> </ul>	Establish long term mutually beneficial relationships, promote sustainable and ethical practices, timely payments, provide supplier feedback, monitor service standards
Supplier relationships	Ongoing	<ul style="list-style-type: none"> <li>◆ Long-term partnerships</li> <li>◆ Quality of service</li> </ul>	
Onsite visits and meetings	Ongoing		
<b>Communities</b>			
Community engagement		<ul style="list-style-type: none"> <li>◆ Creation of job opportunities</li> <li>◆ Sponsorship and support development initiatives</li> </ul>	Empower and uplift the living standards of communities through education, health and infrastructure development
Workshops to cultivate financial discipline		<ul style="list-style-type: none"> <li>◆ Economic and social impacts of the business</li> </ul>	
Community surveys			

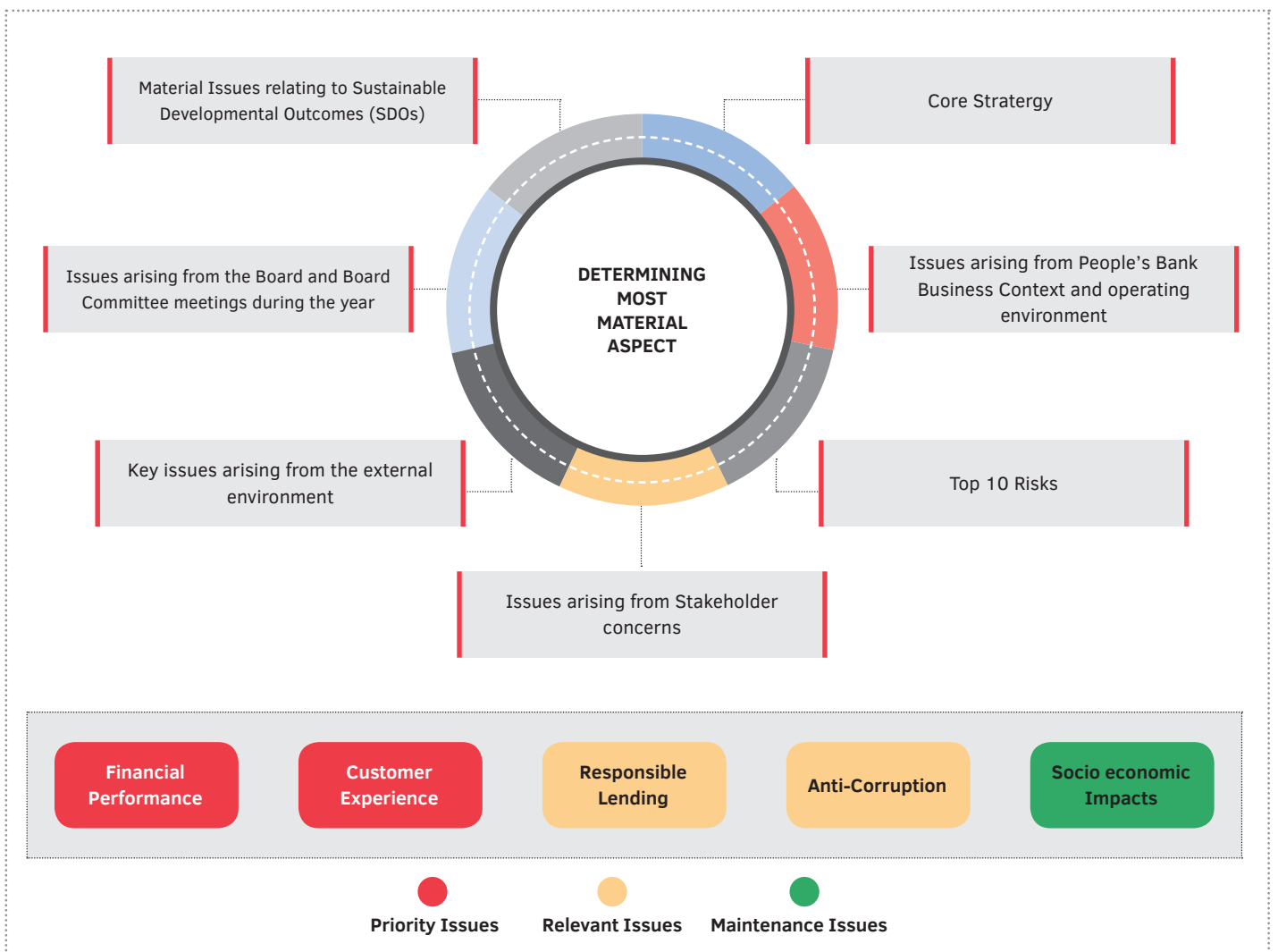
## MATERIALITY








The process of determining material issues is a group wide exercise, with inputs from all departments and business units. Information obtained from engaging with our stakeholders, analysis of market opportunities and risks and the Bank's key value drivers are all used to identify material issues. Materiality of an aspect is determined based on its consequences to stakeholders, the likelihood of occurrence and the magnitude of the impact. In this context, an aspect is considered material if it substantially affects our process of value creation over the short, medium and long term.







Material topics identified are then represented in a two dimensional materiality matrix based on the GRI guidelines. This materiality list is updated annually to keep abreast of the dynamic operating environment and be up to date with the priorities and concerns of our stakeholders.

### MATERIALITY ASSESSMENT PROCESS



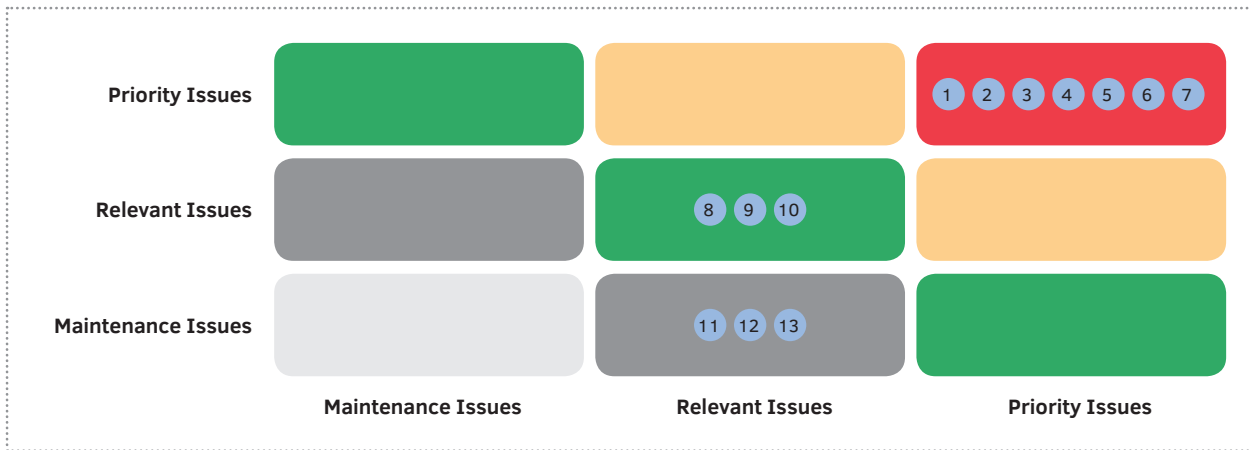
Material Topic GRI 102-47	Topic Boundary GRI 102-46	GRI Relevance	Reasons for Materiality (GRI 103 -1)	Level of Importance	Management Approach (GRI 103 -2)	Evaluation of the Management Approach (GRI 103 -3)
1. Financial Performance	Internal / External	GRI 201	A strong Financial Performance improves resilience, helps to maintain growth momentum and leads to improved brand equity for the Bank	Priority Issue 	Leveraging on market opportunities to grow revenue generated from all business lines, coupled with effective cost management activities to improve the bottom line while strategically managing risk in order to reinforce the capital position and strengthen the Bank's balance sheet.	Financial Capital (Page 105) Management Commentary - Performance of Business Units (Page 96-102 ) Risk Management Report (Page 40)
2. Customer Experience	External	No Direct Relevance	An unparalleled customer experience will enable the Bank to grow Captive market share across all customer segments	Priority Issue 	Provide customized solutions that cater to different customer segments by putting the customer at the core of every business activity	Manufactured Capital (Page 110) Intellectual Capital (Page 113) Social and Relationship Capital - Customer (Page 126)
3. Operational Efficiency	Internal	No Direct Relevance	Increased operational efficiency leads to improved outcomes for all stakeholders of the Bank	Priority Issue 	Increased focus on all key operational areas of the business model	Manufactured Capital (Page 110) Intellectual Capital (page 113) Social and Relationship Capital Customer and Supplier (Page 126 and 128) Human Capital (Page 117) Natural Capital (Page 135)
4. Employee Productivity	Internal	No Direct Relevance	Better employee productivity provides the framework for the Bank to achieve its strategic objectives	Priority Issue 	Systematic investments to develop the Bank's human Capital in order to sharpen their skills and competencies	Human Capital (Page 117)
5. Digital Leadership	Internal / External	No Direct Relevance	Differentiates People's Bank from peers and enables the Bank to strengthen its market position and build brand equity	Priority Issue 	Continuous and ongoing investments in digital technology-driven platforms to transform internal processes and physical architecture as well as to release first-to-market products	Manufactured Capital (Page 111) Intellectual Capital (page 114) Social and Relationship Capital-Customer (Page 126)

## MATERIALITY

	Material Topic GRI 102-47	Topic Boundary GRI 102-46	GRI Relevance	Reasons for Materiality (GRI 103 -1)	Level of Importance	Management Approach (GRI 103 -2)	Evaluation of the Management Approach (GRI 103 -3)
6.	Risk and Governance	Internal / External	No Direct Relevance	Ensures the stability and sustainability of the Bank's business model	Priority Issue 	Proactive Risk management focused on addressing key risks associated with each area of the business, supported by governance practices	Risk Management Report (Page 41) Corporate Governance Report (Page 50)
7.	Compliance	Internal / External	GRI 416, GRI 417, GRI 418,	Enhances the Bank's credentials in the market leading to improved brand equity	Priority Issue 	Maintain a strong governance and oversight framework to ensure 100% compliance with all applicable laws and regulations	Social and Relationship Capital-Customer (Page 126)
8.	Talent Management	Internal	GRI 401, GRI 402, GRI 403, GRI 404, GRI 405	Leads to a team of highly-engaged, more satisfied and loyal employees who will remain fully committed towards the Bank's future success	Relevant Issue 	Recruit, retain and develop the industry-best talent pool	Human Capital (Page 121)
9.	Responsible Lending	Internal / External	No Direct Relevance	Provides an opportunity to promote best practices through the core business activities	Relevant Issue 	Promote greater financial inclusion among rural unbanked communities	Social and Relationship Capital - Customer (Page 125)
10.	Anti-corruption	Internal / External	GRI 205	Supports the Bank's efforts towards compliance	Relevant Issue 	Zero tolerance policy regarding anti-corruption practices	Human Capital (Page 123)
11.	Socioeconomic Impacts	External	GRI 202, GRI 203, GRI 413	Enables the Bank to align the business to address national priority issues	Maintenance Issue 	Contribute towards minimizing social inequalities across Sri Lanka	Social and Relationship Capital - Community (Page 132)



Material Topic GRI 102-47	Topic Boundary GRI 102-46	GRI Relevance	Reasons for Materiality (GRI 103 -1)	Level of Importance	Management Approach (GRI 103 -2)	Evaluation of the Management Approach (GRI 103 -3)
12. Environmental Impact of the Business	External	GRI 302, GRI 305	Provides an opportunity to become Sri Lanka's first "Green Bank"	Maintenance Issue  ●	5-point Environmental Management Framework that focuses on Green Branches, digital products and processes that require reduce the use of paper and raising awareness among employees and wider society to create an eco-friendly culture shift	Natural Capital (Page 135)
13. Supplier Value Creation	External	GRI 204	To minimize the risk of business disruptions due to a breakdown in the supply chain	Maintenance Issue  ●	Broad-based Supply Chain Management practices to improve the reliability of the supply chain	Social and Relationship Management Capital - Supplier (Page 128)



## STRATEGY AND RESOURCE ALLOCATION



### OUR STRATEGIC THEMES

The rapid changes in our immediate operating environment and the ever-evolving needs and expectations of our stakeholders, has reinforced our commitment towards the execution of our 5-year (2016-2020) Strategic Plan which seeks to catalyze Bank's vision to "become Sri Lanka's undisputed market leader for financial services".

Underpinned by four strategic themes, our strategic plan further cascades into 11 verticals (Customer, Products, Marcom, Channels, Branding, Funding, NPLs, Internationalization, Structure, Staff, Social Responsibility, Sustainability, Systems and Technology, Risk, Governance and Compliance) that represent critical business processes within our value creating business model.

The holistic implementation of our strategic plan depends largely our attitude of our people. In this context, Bank's performance-driven culture ensures that our leadership teams work purposefully in cognizance with our core business fundamentals and continue to take ownership for the delivery of these strategic themes in alignment with the Bank's long-term strategic plan.



Performance-driven culture

Customer, Products, Marcom, Channels, Branding, Funding, NPLs, Internationalization, Structure, Staff, Social Responsibility, Sustainability, Systems and Technology, Risk, Governance, Compliance

Always do business the right way

Maintaining a steady growth momentum and building resilience

Being operationally excellent in everything we do

Delivering innovative market-leading client experiences

Prudent Financial Management

Disciplined Capital Planning

Proactive Risk Management

Strong Governance and Conduct

Empowered People

Technology-driven innovation

Brand Stewardship

Material Topics addressed under this strategic theme;

Customer Experience

Digital Leadership

**DELIVERING INNOVATIVE MARKET-LEADING CLIENT EXPERIENCES**

We want to be known as the most reliable banking partner for all Sri Lankans. To earn and retain the customer's trust we are looking to put the customer at the center of everything we do. This means;

- ◆ Understanding our customers and offering the best in-class convenience for all customer segments
- ◆ Serve our customers quickly, efficiently, reliably, consistent and respectfully.
- ◆ Safeguarding the integrity of customer information and data

Increasingly our strategy has become a more digital. Since 2016 we have been leveraging on digital technology to reorient our focus towards producing ever more, innovative client experiences to ensure we remain at the forefront of Sri Lanka's digital banking transformation.

**Focus for 2018;**

Customer, Products, Marcom, Channels, Branding, Systems and Technology, Risk, Governance, Compliance

Customer Convenience	Customer Service	Customer Privacy
<p>210 SBU's commissioned</p> <p>238 CDM's Installed</p> <p>Launch of People's first Digital Branch</p> <p>136 Express Banking Centers</p> <p>EMV compatibility to enable chip-based cards from other banks to be used at People's Bank ATMs</p> <p>Launch of people's wiz customer on-boarding tool</p>	<p>Incurred a Significant amount on training to improve customer orientation among frontline staff as well as call center personnel</p>	<p>Invested in a state-of-the-art Security Operating Centre (SOC) which would greatly strengthen the Bank's capacity to safeguard customer privacy</p>

Material Topics addressed; under this strategic theme

Financial Performance

Risk and Governance

**MAINTAINING A STEADY GROWTH MOMENTUM AND BUILDING RESILIENCE**

Being a state bank, it is Bank's responsibility to support all sectors of the economy. There are however significant downside risk involved especially in the event of an economic slowdown similar to that seen in 2018.

Faced with tough operating conditions in 2018, we made a concerted effort to sustain our revenue growth by realigning our strategies to tap into potential growth opportunities in the market, specially to increase Bank's bandwidth among the corporate sector. Strengthening our retail banking franchise was also seen as key priority for 2018.

To safeguard our bottom line, we focused mainly on improving asset quality, and reducing costs which led to a series of special initiatives being implemented targeting a 10% reduction in the Cost/Income ratio.

Maintaining balance sheet strength was also a key priority as it ensures that we remain resilient in tough times and have the capacity to leverage new growth opportunities even amidst difficult conditions. Our approach is to manage our capital levels to support business growth, maintain depositor and customer confidence, create value for our stakeholders and promote regulatory compliance. In doing so we apply appropriate risk controls to measure our ability to withstand financial stress and its impact on our bottom line and asset quality.

## STRATEGY AND RESOURCE ALLOCATION

**Focus for 2018;**

Products, Marcom, Channels, Branding, Funding, NPLs, Structure, Staff, Systems and Technology, Risk, Governance, Compliance

Sales Growth	Cost Control	Capital Management
<p>The logos of all personal banking products were re branded in line with the new brand architecture. This was done with the aim of creating greater visibility and thereby driving sales of People's Bank's retail product suite.</p> <p>Invested in training dedicated relationship managers to focus on canvassing corporate business.</p>	<p>Instead of setting up new branches, the number of SBU's per region were increased. Compared to branches, SBU's are a more cost effective method of widening the number of touchpoints.</p> <p>Setting up unmanned digital banking centers to support a lowcost operating model.</p> <p>Increased the resources available for the recovery effort.</p>	<p>Compliance with BASEL III requirements</p>

- Material Topics addressed under this theme;
- Operational Efficiency
- Digital Leadership
- Employee Productivity
- Talent Management
- Risk and Governance

**BEING OPERATIONALLY EXCELLENT IN EVERYTHING WE DO**

We believe that being operationally excellent in everything we do, will give a considerable competitive advantage in the market. Our intention is to migrate to a more agile operating model that would improve our ability to be more proactive rather than reactive in taking cognizance of the challenges and opportunities in our operating environment.

We understand that achieving operational excellence requires ongoing improvement and investment, systems, people and processes. Accordingly we follow a top-down approach towards operational excellence. The Bank's leadership sets the tone from the top, in order to drive the culture of excellence across all levels of the bank.

In recent years we have come to rely more and more on technological to explore opportunities for improving efficiency and become a more agile bank.

**Focus for 2018;**

Customer, Products, Marcom, Channels, Branding, Funding, NPLs, Internationalization, Structure, Staff, Social Responsibility, Sustainability, Systems and Technology, Risk, Governance, Compliance

Enhance System Capability	Strengthening cyber security protocols	Reinforcing the culture of excellence
<p>Investment in a Data Warehouse solution to facilitate the effective use of data for MIS purposes.</p> <p>Implemented new changes under the ISO 27001 (Information Security Management) standards recertification process.</p>	<p>Appointment of an Information Security Officer in compliance with the CBSL 's baseline cyber security standards</p>	<p>Invested Rs. 74 million in skills training and competency development activities to enhance staff capacity</p>

**ALWAYS DO BUSINESS THE RIGHT WAY**

Being a responsible bank is a tangible and important concept for People's Bank. As a minimum, we are bound by regulatory standards in relation to areas such as compliance, data protection, anti-money laundering and corporate governance. Furthermore we support the standards set out by the OECD, and the International Labour Organization as binding as well as 10 principles outlined under the UN Global Compact and the Sustainability Development Goals put forth by the UN in 2015.

We believe that our ability to comply with these laws, regulations, codes and standards applicable to our businesses, in effect determines our reputation.

Acting responsibly and protecting the interests of the various stakeholder groups in the process means that we are required constantly weigh risks against the benefits that are created. In this context, new business initiatives, new products or changes in existing business are introduced only after they have undergone a rigorous review and approval process, while business initiatives with a potentially negative impacts on the environment or society are subjected to close scrutiny.

**Focus for 2018;**

Customer, Products, Staff, Social Responsibility, Sustainability, Systems and Technology, Risk, Governance, Compliance

Promoting Financial Inclusion	Supporting employee rights
Engaging in micro finance lending through the Enterprise Sri Lanka initiative.	Renewal of the collective bargaining agreement
Conducting Financial Literacy Workshops to improve capacity of rural SME's.	

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## OPERATING ENVIRONMENT

### GLOBAL ECONOMY

In 2018 Global growth moderated with global GDP estimated to have reached around 3.1% as the recovery in trade and manufacturing activity progressively lost steam. Moreover ongoing trade tensions, combined with concerns about softening global growth prospects, weighed in on investor sentiment and contributed to a decline in global equity prices. Strengthening of the U.S. dollar, heightened financial market volatility, and rising risk premiums led to large capital outflows resulting in currency pressures in some large emerging economies, with some vulnerable countries experiencing substantial financial stress. Energy prices have fluctuated markedly, mainly due to supply factors, with sharp falls toward the end of 2018. Other commodity prices—particularly metals—have also weakened, posing renewed headwinds for commodity exporters.

### Advanced Economies

Growth moderated in most advanced economies, with the notable exception of the United States, where fiscal stimulus has continued to boost economic activity. The U.S. economy is estimated to have grown by 2.9% in 2018, higher than mid-year projections, reflecting stronger-than-expected domestic demand, which was bolstered by government-led fiscal stimulus and accommodative monetary policy by the Federal Reserve.

In contest growth in the Euro Area slowed notably in 2018 to an estimated 1.9%, due mainly to the softening of exports on the back of an appreciation of the euro and slowing external demand.

In Japan growth slowed to an estimated 0.8% in 2018, reflecting contractions in the first and third quarters due to bad weather and natural disasters, while in China Growth is estimated to have slowed slightly but nonetheless remained at a robust 6.5% in 2018, thanks to resilient domestic consumption.

### Emerging Economies

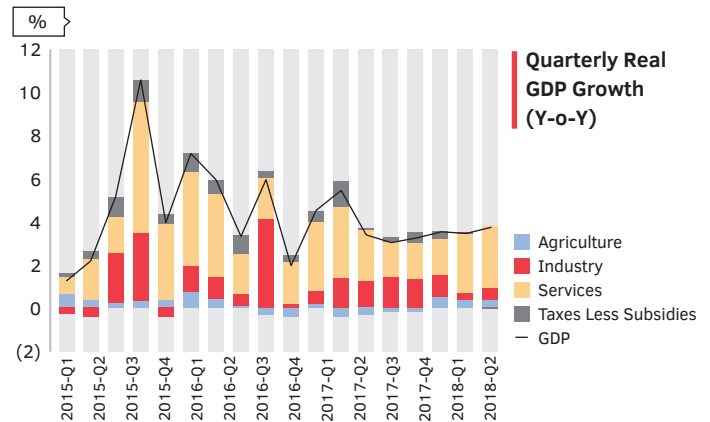
Growth in emerging economies edged down to an estimated 4.2% in 2018, lower than previously projected—as a number of countries with elevated current account deficits experienced substantial financial market pressures and appreciable slowdowns in activity. More generally, as suggested by recent high-frequency indicators, the recovery among commodity exporters also lost momentum significantly, largely owing to country-specific challenges. Domestic demand across emerging economies remained moderate, reflecting tighter domestic borrowing conditions, softer confidence, and policy tightening in some large economies to ward off domestic price and capital outflow pressures. On the external front, import growth softened, partly due to sharp currency depreciations in many emerging economies, while export growth has also slowed, reflecting weaker external demand and a softening of global investment.

Source: World Bank. 2019. *Global Economic Prospects, January 2019: Darkening Skies*.

### SRI LANKA'S ECONOMIC PERFORMANCE

#### Overview

As per the provisional estimates of the Department of Census and Statistics, the Sri Lankan economy recorded a modest growth of 3.9% as many sectors were under stress during the year. Agriculture, forestry and fishing activities recorded a turnaround with a 4.9% growth in the first half of the year, indicating a recovery from adverse weather conditions that hampered growth during the first half of 2017. Growth in industrial activities remained subdued with an expansion of 1.6%, particularly with the decline in construction and mining and quarrying activities amidst the moderate expansion in the manufacturing activities. Meanwhile, services activities grew by 4.8% supported by the significant growth in financial services together with the expansion in wholesale and retail trade activities and other personal services activities.



Central Bank Of Sri Lanka-Recent Economic Developments: Highlights Of 2018 And Prospects For 2019

### Unemployment

The unemployment rate increased to 4.5% during the first half of 2018 from 4.3% during the first half of 2017. Both male and female unemployment rates increased to 3% and 7.4% respectively, during the first half of 2018 from 2.9% to 6.8% respectively in the corresponding period of 2017. Meanwhile the labour force participation rate (LFPR) declined to 51.5% during the first half of 2018 compared to 54.3% in the same period of 2017, while the employed population also fell to 7.97 million during the first half of 2018 from 8.18 million in the corresponding period of 2017.

### Inflation

Consumer price inflation remained subdued during the first nine months of 2018 in spite of a transitory uptick in prices due to the upward adjustments to the prices of domestic petroleum products and other administered prices. Headline inflation, based on the National Consumer Price Index (NCPI, 2013=100) and the Colombo Consumer Price Index (CCPI, 2013=100), decelerated to low levels by April 2018 mainly due to the decline in food prices as a result of favorable supply side developments with the dissipation of weather related disturbances. Nevertheless, upward adjustments to domestic petroleum prices and the increased pressure on domestic food supplies during the off-season



caused an acceleration in headline inflation during some months of the year. Accordingly, year-on-year core inflation based on NCPI remained at 3.1% while year-on-year core inflation based on CCPI remained at 3.8% in September 2018.

#### External Sector

The country's external sector experienced a setback in the second and the third quarters of 2018, with moderate foreign exchange inflows amidst increased import expenditure and higher capital outflows. Higher than expected growth in import expenditure outpaced the increase in export earnings, resulting in a considerable widening of the trade deficit during the first eight months of 2018. Earnings from exports increased by 5.8%, year-on-year, to US dollars 7,842 million while expenditure on imports grew significantly by 10.9%, year-on-year, to US dollars 15,083 million during the first eight months of the year. The growth in export earnings mainly emanated from industrial exports amidst lower earnings from agricultural exports. Meanwhile, the expansion in import expenditure was driven by the surge in the import of fuel, vehicles and textiles and textile articles. Consequent to these developments, the trade deficit widened to US dollars 7,240 million during the first eight months of 2018 from US dollars 6,184 million in the corresponding period of 2017.

#### Exchange Rate

The exchange rate, which remained relatively stable in the first four months of 2018 came under significant pressure thereafter due to both domestic and external factors. Domestically, the widening trade deficit reflected a higher foreign exchange demand from importers, while on the external front, the broad-based strengthening of the US dollar in the global market and foreign investment outflows directed towards the US brought pressure on a number of emerging market currencies, including the Sri Lankan Rupee. Despite the significant pressure on the exchange rate, the CBSL continued to allow greater flexibility in the determination of exchange rate, permitting a depreciation in line with market fundamentals. Amidst this backdrop the Sri Lankan rupee depreciated by 9.7% against the US dollar during the year up to end September 2018.

#### Fiscal Policy Developments

Several policy measures were introduced by the government during the year 2018 to enhance its ongoing fiscal consolidation programme, key among them the new Inland Revenue Act No. 24 of 2017 which was enacted with effect from 01 April 2018, supporting the fiscal consolidation process of the government through broadening the direct tax base and simplifying and rationalising the existing income tax structure.

Source: CBSL

### BANKING SECTOR PERFORMANCE

It was a year of mixed results for Sri Lanka's banking and financial services sector, characterized by healthy loan growth although moderating economic conditions led to rising impairments. Despite challenging economic conditions, the Banking sector continued to expand while maintaining capital and liquidity levels well above the regulatory minimum requirements, and thereby ensuring the resilience of the sector.

Further, deteriorating credit quality adversely impacted the profitability of the banking sector despite of the expansion in Net Interest Income (NII).

#### Asset Growth

Overall, the sector's assets grew by 14.6% YoY in 2018 supported by a 19.6% expansion in credit assets. In terms of products, growth was driven by strong expansion of overdraft facilities as well as term loans, pawning and leasing to a lesser extent. Investment portfolio growth was limited to 5% during the year which resulted in the sector's asset composition tilting more towards credit assets, accounting for 64% of total assets in 2018.

#### Funding

Deposits mobilized from the public remained the main source of funds driving the banking sector asset growth in 2018. The asset base of the banking sector was funded primarily through deposits worth Rs. 8.5 trillion and borrowings worth Rs. 1.8 trillion.

#### Asset Quality

Asset quality showed a deterioration, but remained manageable. NPLs increased by Rs. 102.5 billion to Rs. 263.2 billion at end December 2018 from Rs. 160.7 billion at end 2017, resulting in the NPL ratio increasing to 3.4% by end December 2018 from 2.5% as at end 2017.

Further, with the adoption of SLFRS 9, a 30% to 40% increase in impairment provisions could be seen across the industry. Banks have sought to stem the credit quality deterioration by strengthening collection and recovery efforts and adopting a more selective approach to lending.

#### Liquidity

The banking sector continued to operate with adequate liquidity buffers over and above the minimum regulatory requirements. As at end December 2018, the Statutory Liquid Assets Ratios (SLAR) of the Domestic Banking Units (DBU) and the Overseas Banking Unit (OBU) were at 25% and 45%, respectively, which is well above the minimum statutory requirement of 20%, while the ratio of liquid assets to total assets stood at 27.6% at the end of December 2018.

During the year under review, the rupee currency and all currency liquidity coverage ratios were also maintained well above the minimum requirement of 90%.

#### Profitability

Despite a 16% expansion in Net Interest Income (NII), the sector reported a year on year decline in profits in 2018 for the first time in many years. Profit after tax reached Rs. 126 billion for the year ended December 2018 recording a decline of Rs. 12 billion compared to 2017. This is due to an escalation in operating expenses and 104% increase in loan loss provisioning. Sector Corporate tax also increased by 23% resulting in profit after tax declining by 9% during the year.

#### Capital Adequacy

The banking sector maintained adequate capital buffers during the year 2018 in order to absorb adverse shocks. By end September 2018, the sector operated with a common equity ratio of 12.4% and a total capital ratio of 15.7%, both well above the Basel III requirements.

Source: CBSL

## PERFORMANCE OF BUSINESS UNIT

## RETAIL BANKING



## Overview

Having first entered the market over five decades ago, the Bank's Retail banking portfolio has since evolved into a robust life-style based offering that looks beyond the day-to-day transactional banking needs to provide the full gamut of credit and investment solutions that support customers all across Sri Lanka, throughout their lifespan.

Today People's Bank's tailor-made loan schemes give customers the opportunity to meet their life goals, be it building a house, purchasing a vehicle, or even simply up-grading their lifestyle, while the suite of personal investment products help customers make smart choices by saving for their children's education, for re-tirement etc.

In delivering its retail banking proposition to the market, Bank leverages on its network of 738 branches, the largest and the most geographically widespread network in the country. More recently, in keeping with the growing global trend towards digital banking, People's Bank too has embarked on an ambitious Digital Strategy aimed at transforming into a world-class digital bank.

### STRATEGY AND OPERATING CONTEXT

In 2018, Retail Banking unit continued to maintain its focus on enlarging the lending book as well mobilizing deposits.

#### Lending Activities

From a lending perspective, the major focus was to tap into salaried employees in both the Private sector as well as the State sector. The main thrust in this regard was to promote the "Pahasu" loan, a lifestyle loan scheme offered to private / state sector salaried employees. To further complement the effort, the Digital Loan Origination system was launched in June 2018. The first step in People's Bank's digital transformation journey, the Digital Loan Origination mechanism enables customers to complete the loan application process by downloading the Peoples Wave app on their Android or iOS enabled smart devices.

Moreover having observed a strong appetite for personal loans from certain customer segments especially in the state Sector, People's Bank redoubled efforts to tap into these segments. A new Professional Loan Scheme was launched targeting members of the judiciary, with attractive terms including a higher entitlement and longer repayment period. The "Dayaviru Pranama" loan proposition offered for the tri-forces, was also revamped with a new special rate together with more relaxed terms and conditions.

Intensifying the focus on the state sector, People's Bank continued with efforts to boost the demand for existing products such as "Guru Setha" for State sector teachers, "GMOA" scheme for government doctors, "Suwa Sevana" for State sector nursing and hospital staff and "Jaya Nivasa", the housing loan scheme offered to all State and private sector employees.

Ongoing efforts to promote the "Swarna Pradeepa" pawning service across the island continued throughout 2018, with special emphasis on widening the reach in the Gampaha and Kurunegala districts where a strong demand for the product was evident.

Meanwhile to offset the drop in demand for the leading product - "People's Auto" following the government's decision to tighten the loan-to-value ratio, the bank focused mainly on the recovery effort in order to control NPL's and manage portfolio quality.

#### Deposit Mobilization

The year 2018 proved to be a challenging one for Bank's deposit mobilization unit as public sentiments towards savings remained weak amidst low levels of economic activity. Nonetheless looking to take advantage of the relatively stable rate environment, People's Bank accelerated efforts to mobilize deposits with a strong focus on increasing the CASA spread.

Given the growing competitive pressure in the market, a dedicated sales team was appointed to conduct ground-level campaigns across Sri Lanka in order to boost the is-land-wide volume of transactional / savings (CASA) accounts. The team was also tasked with raising awareness regarding People's Bank's digital offerings that ideally complement the entire CASA suite of products.

Regular promotional activities for Bank's flagship savings products "Isusru Udana" (for minors from birth to 6 years) and "Sisu Udana" (for minors from 6 - 18 years) continued throughout the year, with bank representatives visiting hospitals and schools to raise awareness

regarding these products and drive customer acquisitions.

The bank also continued with its strategy to contribute Rs. 250/- towards all new "Isuru Udana" and "Sisu Udana" accounts opened in 2018, while a special one-week campaign was conducted between 31st January 2018 - 7th February 2018, where the bank increased its contribution to Rs. 500/- for each new "Isuru Udana" account. The special initiative conducted for "Sisu Udana" was the first-day-first-lesson campaign, where the bank undertook to contribute an amount equal to the initial deposit (Up to a maximum of Rs. 500/-) for all new "Sisu Udana" accounts opened on the first day of the 2018 school year. To further complement these efforts, a strategic decision was made to install cash deposit machines at schools, which led to the first People's Bank's branded cash deposit machine being commissioned at Ananada College Colombo in October 2018, giving parents a convenient and easily accessible channel to make a deposit directly to their child's savings account.

Building market share across other customer segments was another priority for 2018, leading People's Bank to target the ladies savings and senior citizens savings segments. A highly-focused internal campaign was run in the second half of the year, to encourage branches to leverage on the rate hike in November 2018 in order to drive island-wide volumes of both the "Vanitha Vasana" ladies savings and the "Parinatha" senior citizens savings products.

Another key effort for the year was the YES - Deposit Mobilization campaign conducted between 01st August 2018 - 31st October 2018, where branches were given acquisition and retention targets in order to drive volumes and customer numbers. Products covered under the YES Deposit Mobilization campaign included the plain vanilla term deposits and the Investment Savings Accounts (ISA), the newly launched current account deposit products "People's Power" to support young entrepreneurs, "People's Pulse" for young professionals and the newly revamped "Jana Jaya" savings product, which targets upwardly mobile millennial generation.

Adding further value to these initiatives was the People Wave mobile banking App. Launched in May 2018, the People Wave app offers a safe and convenient channel for customers to monitor and manage their savings 24/7, 365 through their smart devices.

#### FUTURE ACTION

- ◆ Manage portfolio risk by diversifying the lending portfolio and reducing the over dependence on a few products .
- ◆ Focus on improving loan quality.
- ◆ Targeted market development and market penetration strategies to grow market share in identified segments of the deposit market.
- ◆ Leverage on digital technology to differentiate Bank's deposit products from peer offerings.

#### PERFORMANCE SUMMARY

	2018	2017	Growth %
Deposits (Rs. Million)	1,228,695	1,050,355	17.0
Pawning (Rs. Million)	149,826	136,475	9.8
Credit Cards (Rs. Million)	2,883	2,212	30.3
Other Retail Loans (Rs. Million)	357,504	326,366	9.5

## PERFORMANCE OF BUSINESS UNIT

## ENTERPRISE BANKING


**Overview**

The Enterprise Banking model follows a two-pronged approach; 1) conventional lending products such as term loans, trade and working capital facilities, cash margins loans etc, all designed specifically to cater to the needs of small and medium scale enterprises across Sri Lanka and 2) promoting the concept of development banking through low-cost funding lines. In this context Bank's Enterprise Banking unit works with the Sri Lanka government as well as global aid agencies to gain access to concessionary funding lines such as the Enterprise Sri Lanka initiative.

Be it conventional lending or through special funding lines, Enterprise Banking suite offers a unique value proposition that combines a highly personalized service to give each client a bespoke banking solution that is also world-class.

**STRATEGY AND OPERATING CONTEXT**

It was a year of mixed results, as several of the key sectors serviced by the Enterprise Banking unit came under pressure on the back of weak economic activity and persistent bad weather. While the direct impact was felt most severely in the agriculture, government-led construction and tourism industries, the broader implications were evident in the FMCG, transport, wholesale and retail trade industries as well. Importers too remained under stress in 2018 amidst ongoing revisions to the import duty structure and the sharp depreciation of the Rupee especially in the latter half of the year.

Collectively addressing these challenges led People's Bank's Enterprise Banking unit rethink its strategy for 2018. Moving away from the aggressive volume-driven strategy adopted in the past, the focus shifted towards safeguarding NIM's. To achieve this objective, a broad-based client retention strategy was deployed, targeting to increase captive market share in sectors such as tourism, agriculture and healthcare. Despite Bank's strong presence in these sectors however, Enterprise Banking RMs (Relationship Manager) were mandated to further strengthen relationships with existing clients. This was coupled with efforts to promote cross-selling, bundled offers and client advisory services to increase Bank's stronghold in these sectors. Meanwhile a selective a lending policy was adopted for ailing sectors such as construction, while strong emphasis was placed on managing NPL's for these sectors.

In contrast the demand for credit from the export sector, particularly exporters of manufactured goods, remained buoyant, prompting Bank's Enterprise Banking Unit to launch an aggressive BTL campaign to grow volumes in the apparel and fisheries export industries. To further support this effort a strategic decision was made to revamp the existing credit management model with the aim of offering a speedier service to all clients across the country. As part of this effort, the centralized credit processing mechanism was decentralized with 24 Regional Credit Units (RCU) being established.

A new credit approval structure was also rolled with RCU heads being given authorized approval limits.

Serving as customer touch points, RCU model was further designed to relieve branches from any processing activities including liaising with clients, which forthwith is handled by the respective RCU. This has enabled branch credit teams to focus solely on generating business. In this context, the RCU model is also tied to People's Bank's long term sector diversification strategy by paving the way for Bank to venture into yet untapped sectors such as Education, Financial Services and ICT. Nonetheless, being relatively new territory for People's Bank, the bank continued to maintain its selective lending approach towards increasing the exposure to these sectors.

**PERFORMANCE SUMMARY**

Key Performance Indicator	2018	2017	Growth %
Advances (Rs. Mn)	195,992	172,778	13.4
Non performing Loans (Rs. Mn)	7,815	5,911	32.2
No. of SME education seminars	2	3	
No. of beneficiaries of SME education seminars	405	525	

**FUTURE ACTION**

- ◆ Focus on increasing captive market share in order to boost NIM.
- ◆ Consolidate Bank's position in key high-growth sectors of the economy.
- ◆ Continue with the selective lending strategy to support sector diversification and reduce portfolio concentration risk that may occur as a result of the overexposure to a few sectors.
- ◆ Increase lending through the Enterprise Sri Lanka initiative.

## CORPORATE BANKING

### Overview

Corporate Banking serves the needs of conglomerates, local and offshore corporates and state-owned enterprises (SOE's). Bank's unique value proposition is centered on providing clients with customised financial solutions to meet their specific needs. Clients benefit from a range of financing and investment solutions which gives them access to equity and debt financing, syndicated and structured loans, project and trade financing.

The Bank recently launched a comprehensive online and mobile banking platform for its corporate clients facilitating clients to carry out their transactions including payments, trade and loans through online channels. The ongoing transformation agenda involves digitization and automation of processes in order to improve efficiencies and provide a faster service to clients.

#### STRATEGY AND OPERATING CONTEXT

Although SOEs continued to dominate People's Bank lending portfolio in 2018, the Corporate Banking unit remained focused on expanding market share in the private sector. Growth in the private sector came largely from the construction, manufacturing, retail and infrastructure sectors. However credit demand from the private sector continued to taper given the cautious approach taken by many companies in the face of policy uncertainty, slower economic growth and global economic impact. People's Bank continued to adopt a prudent lending strategy by being selective in order to manage the portfolio risks and maintain NIM's. People's Bank remained especially selective in the commercial real estate space and exposure to this sector is therefore low compared to other Banks.

During the year, with increasing competitive pressures, People's Bank was able to leverage on its capabilities by leading and participating in financing transactions of national importance. Several notable transactions were carried out 2018, including the following;

- ◆ Lead financier in a syndicated loan for the Hayleys' acquisition of Singer for a consideration of LKR 10.9B, the single largest transaction of a listed company in Sri Lanka in recent times
- ◆ Lead financier of the USD 42 million debt component of Laugfs Terminal Limited, part of a historic investment of approx USD 52 million in a gas storage terminal in the Hambantota Port. The Terminal is expected to be a regional player providing services to India, Bangladesh, Myanmar and the East and South African countries
- ◆ Participant with the largest debt component in the syndicated loan for Sri Lanka's first waste-to-energy project undertaken by the Aitken Spence Group. At a total in-vestment of approx LKR 13 billion (debt of LKR 9 billion), the project represents a vital and much needed solution to the current challenges of disposing solid waste within the Colombo municipal area

- ◆ Financier for the constructing of the Hayleys Advantis Logistics Park in Ekala, which is the largest logistics hub in the country.

Renewed emphasis was also placed on offshore lending activities led by a two-pronged strategy 1) to offer support to local corporates seeking to invest overseas and 2) be more active in the regional syndication market which involved reputable international banks.

#### PERFORMANCE SUMMARY

Key Performance			
Indicator	2018	2017	Growth %
Net Income (Rs. Mn)	12,339	9,022	36.8
Profit After Tax (Rs. Mn)	4,082	4,013	1.7
Assets (Rs. Mn)	574,903	372,251	54.4
Advances (Rs. Mn)	564,799	354,524	59.4
Deposits (Rs. Mn)	156,831	162,130	3.3
NPL Ratio (%)	2.5	1.5	1.0
Lending to SOEs (Rs. Mn)	425,033	247,493	71.7

#### FUTURE ACTION

- ◆ Manage portfolio risk through greater diversification of the portfolio.
- ◆ Focus on high quality lending in order to achieve sustainable growth.
- ◆ Strengthen client relationships and deepen wallet share/cross sell/upscale.
- ◆ Leverage on People's Bank advanced digital capabilities as a source for fee-based income.

## PERFORMANCE OF BUSINESS UNIT

### TREASURY

#### Overview

The Treasury Department, which manages funding and liquidity requirements of the Bank plays a vital role in the day-to-day operations of the business. The Treasury is also responsible for ensuring the Bank remains sufficiently liquid at all times, thereby safeguarding Bank's long term financial stability.

Asset and liability Management, including handling the bank's investments in securities, foreign exchange and cash instruments; forms an important part of the duties of the Treasury Department.

In addition, the Treasury department also provides a broad range of investment and wealth management solutions as well as custodian services for corporates and high net worth individuals.

#### STRATEGY AND OPERATING CONTEXT

The Treasury continued to work towards ensuring the Bank's stability and sustained growth through proactive capital, liquidity, and risk management of investments. While the Treasury continued to participate in the primary auctions throughout the year in a bid to optimize returns on the Fixed Income portfolio, the upward movement in the yield curve for 3 months and 6 months Treasury Bills meant there were only limited opportunities for capital gains in the first half of 2018. However capitalizing on short-term fluctuations of secondary market yields from mid-2018, the Treasury seized the opportunity increase secondary market trading activity and pursue capital gains towards the end of the year.

Efforts to strengthen the asset and liability management activities meanwhile saw the Treasury spreading the inflows across multiple maturity periods and planning large volume outflows well in advance. Steps were also taken to build the AFS and HTM portfolios at favourable yields in order to ensure attractive and consistent yields in medium to long term.

The Treasury also focused on rationalizing the Bank's liquid assets with the aim of ensuring People's Bank's liquid ratios remain within CBSL mandated limits, while a prudent strategy was adopted for managing foreign currency liquidity amidst political turmoil and drastic depreciation of LKR in the latter part of 2018.

#### PERFORMANCE SUMMARY

Key Performance Indicators	2018	2017	Growth %
Net Income (Rs. Mn)	11,417	9,100	25.5
Profit after Tax (Rs. Mn)	8,125	8,089	0.4
Assets (Rs. Mn)	512,031	446,219	14.7
FOREX Profit (Rs. Mn)	2,119	746	184.0

#### FUTURE ACTION

- ◆ Consolidation of present activities.
- ◆ Provide fund management services.

## OVERSEAS CUSTOMER SERVICES

### Overview

The Overseas Customer Services (OCS) unit, which has been handling Inward Remittances of People's Bank for the past 30 years, has won the hearts of thousands of Sri Lankans living and working overseas as the most trusted banking partner through its best service delivery.

Working with a vast network of global partners, OCS provides Remittance services to its customers through various remittance channels.

Further, OCS offers a suite of Foreign Currency Deposit products for its vast customer base to manage their savings.

#### STRATEGY AND OPERATING CONTEXT

With several factors affecting the Inward Remittance volumes routed to the country, the year 2018 was quite challenging for People's Bank too. Amidst these challenges, the key priority for People's Bank was to maintain its market share, which led OCS to redouble the efforts to strengthen its global outreach. Measures were taken to widen the partner network in new territories along with integrating new Agents through People's Instant Remit system in several major source markets. At the same time, a number of promotional campaigns were also carried out in an attempt to raise awareness of People's Remittance services among the Sri Lankan expatriate community.

Several operational improvements were also made to enhance the service delivery to the customer, most notable among them being the completion of the CEFT integration to enable instant transfers to other banks. Hand in hand with this, the Smart Remit platform was further streamlined with the aim of improving the efficiency of the People's Remittance services.

The Foreign Currency Deposit business too came under pressure in 2018, mainly due to the account opening restrictions imposed in UAE and Qatar which had a major impact on the OCS's ability to canvas new Foreign Currency Deposits from these key source markets. In light of these developments the focus shifted towards customer retention.

#### FUTURE ACTION

- ◆ Strengthening the global partner network in order to make inroads into untapped markets.
- ◆ Increasing the number of Remittance agents worldwide.
- ◆ Sign up with new remittance platforms to give Bank's a competitive leverage over peers.
- ◆ Expand API integrations to improve service delivery to the customer.

## PERFORMANCE OF BUSINESS UNIT

## INTERNATIONAL BANKING


**Overview**

The International Banking Division provides import and export financing facilities for state sector institutions as well as for private sector corporates and mid range SMEs. Supported by a network of over 900 correspondents, the International Banking Division reach extends to 100+ countries across the world

**STRATEGY AND OPERATING CONTEXT**

While the demand for Trade Services from the public sector stayed more or less consistent throughout 2018, the demand from the private sector continued to fluctuate during the course of the year. The demand from the import trade remained particularly sensitive to changes in the macroeconomic environment, among them the ongoing efforts by the government to curtail imports through an upward revision of the vehicle import duty structure. The sharp depreciation of the Rupee, as well as the CBSL's decision to tighten the cash margin requirements on letters of credit, were the other key factors that had a bearing on the demand for import-related trade services. Notwithstanding these challenges, People's Bank's Trade Finance unit renewed its focus on increasing market share in the import trade business. An aggressive branch-led effort was initiated to drive volumes. Meanwhile a concerted effort was made to differentiate People's Bank's Trade Finance value proposition from the mainstream offerings of peers saw several system developments being made with a view to enhancing the overall customer experience by facilitating faster processing times. The key highlight in this regard was the launch of CLOS (Corporate Loan Origination System), Corporate Internet Banking and Corporate Mobile Banking digital solutions that are based on a straight-through approval process which aims to cut processing times by 50%. The SWIFT system was also upgraded from version 7.1 to 7.2 in line with globally accepted financial telecommunication standards that support faster connectivity across banking partners around the world with more security features. Trade Finance Division is backed by ISO 9001-2008 accredited by SLSI since 2013.

Additional investments were also made in staff training, in a bid to improve their product knowledge and service capacity.

Meanwhile a strong push to grow the export finance portfolio was spearheaded by a series of BTL campaigns to tap into leading large-scale exporters in identified high-growth sectors within the economy.

**PERFORMANCE SUMMARY**

	2018	2017	Growth %
Import Financing (USD million)	5,286	4,392	20.3
Export Financing (USD million)	997	596	67.3
Import Turnover (USD million)	83	53	56.6
Fee & Commission Income (USD million)	18	16	12.5
Average LC processing time (hours)	4	4	-

**FUTURE ACTIONS**

- ◆ Leverage on potential opportunities to grow market share in the export financing business.
- ◆ Invest in digital solutions in order to further enhance the Trade Services value proposition to the customer.
- ◆ Further enhance trade product awareness among staff of network to promote-trade related business.



## CAPITAL MANAGEMENT

We have set ourselves aspirational medium-to-long-term targets to measure the progress towards being most admired by our key stakeholders.



### CUSTOMERS

Exceeds Customer Expectations to become the Bank of Choice for all Sri Lankans

#### Key Commitments

- ◆ Invest in digital technology to provide seamless connectivity through an omni-channel environment
- ◆ Release timely, relevant products to gain first mover advantage that will drive market share in multiple markets
- ◆ Strengthen customer relationships through efficient and effective complaint management
- ◆ Invest in training to improve customer orientation among employees

Social and Relationship Capital (Customer), Intellectual Capital, Human Capital



### EMPLOYEES

Develop and retain a talented, engaged and high motivated workforce

#### Key Commitments

- ◆ Maintain strong relationships with employee unions
- ◆ Introduce performance-based rewards
- ◆ Invest in work-life balance initiatives

Human Capital



### SHAREHOLDERS / REGULATORS

Deliver exceptional financial results and maintain industry-best capital position

#### Key Commitments

- ◆ Leverage on market opportunities could with strategic risk management to tactically grow revenue
- ◆ Increase training to improve staff productivity and lower costs
- ◆ Digitalization and automation leading to operational efficiency that would improve cost-to-income ratio
- ◆ Strong capital planning to ensure compliance with regulatory requirements

Financial Capital, Human Capital, Intellectual Capital, Natural Capital



### COMMUNITY

Contribute towards building self-sustaining communities

#### Key Commitments

- ◆ Promote financial inclusion across Sri Lanka
- ◆ Invest in the community in a way that would address national priority issues

Social and Relationship Capital (Community)



## FINANCIAL CAPITAL

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By leveraging on our financial capital we continue to achieve a sustainable growth and maintain our standing in the local banking industry. We strive to increase the value of financial capital by adopting prudent strategies to increase profit generation, manage costs and raise equity and debt, all with the aim of delivering increased value to our stakeholders.

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- Consolidated Total Operating Income expanded by **22%**

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- Customer Deposits grew by **14.5%**

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- Gross Loans and Advances grew by **24.2%**

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- Return on Equity maintained over **20%** since 2010

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The year 2018 was one of exceptional achievement for our Group, with gross income reaching Rs. 219.4 billion, a year-on-year (YoY) increase of 16.2%. Operating expenses grew by 21.2% YoY primarily due to higher personnel costs resulting from the salary increases which came into effect from January 2018 following the renewal of the Collective Agreement on 1st January 2018.

The strong, resilient performance during the year, reflects the People's Bank Group's capacity and drive to consistently achieve a higher standard of performance even amid challenges. The success is due to the collective efforts of the entire Group team with every department contributing to the success.

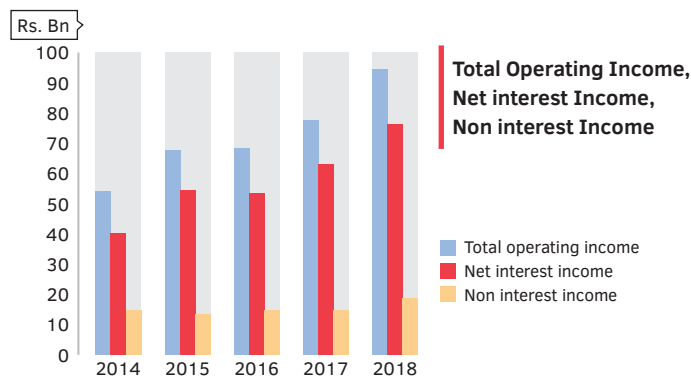
**TOTAL OPERATING INCOME**

LKR Billion	2013	2014	2015	2016	2017	2018
Total operating income	55.6	54.3	67.6	68.4	77.5	94.5
Net interest income	45.0	40.0	54.3	53.6	62.7	75.9
Non interest income	10.6	14.3	13.3	14.8	14.8	18.7
<b>NIM - %</b>						
Consolidated	4.5%	3.7%	4.5%	3.9%	4.0%	4.0%
Bank	4.1%	3.1%	4.0%	3.5%	3.5%	3.5%

Consolidated total operating income reached Rs. 94.5 billion in 2018 recording a YoY growth of 22.0%, compared to Rs. 77.5 billion in 2017. The Bank's operating income accounted for 78.9% of Group operating income.

**NET INTEREST INCOME**

Net interest income which represents core operations of the Group, accounted for approximately 80.3% of total operating income. Net interest income grew by 20.9% YoY to Rs.75.9 billion in 2018, compared Rs. 62.7 billion in 2017. Given below is an analysis of the constituents of net interest income.



**Interest income**

Interest income expanded by 15.2% to Rs.200.3 billion in 2018. This was largely driven by the 23.8% increase in net customer advances and a higher average yield on interest bearing assets. The average yield on interest bearing assets rose to 12.4% in the year under review, from 12.1% in 2017, reflecting a YoY growth of 0.3%.

Customer advances accounted for 80% of total interest income, whilst other investments comprising government securities accounted for the balance.

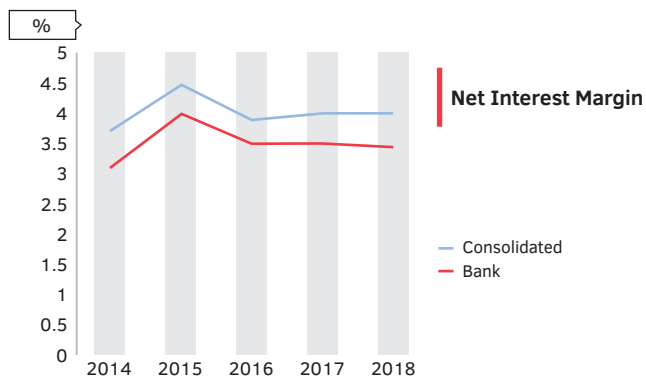
**Interest expenses**

Interest expenses grew at a 12.0% primarily due to the larger volumes of high cost term deposits mobilized during 2018. This, however, is a natural phenomenon in a rising interest rate environment. Additionally, the faster repricing of term deposits relative to customer advances caused interest expenses to rise. This is because, over 90% of the Group's term deposits have a maturity profile of less than one year.

Of the total interest expenses, deposit related expenses accounted for approximately 90% of total interest expenses, of which more than 50% accounted for term deposits.

From a funding perspective, deposits accounted for 84% of the total expenses, of which fixed deposits accounted for 63%. During 2018, the Group successfully mobilized Rs.189.7 billion new deposits on a net basis, of which fixed deposits accounted for Rs.171.6 billion.

The Group successfully improved its net interest margin to 4.04% in 2018 from 4.00% in 2017 due to efficient repricing strategies adopted by the Group in order to manage margin pressure. At Bank level, the interest margin improved from 3.48% in 2017 to 3.50% in 2018. The relatively higher current account saving account (CASA) ratio at a Bank level cushioned the interest pressures to a great extent.



## FINANCIAL CAPITAL

### NON-INTEREST INCOME

Non-interest income comprises fee and commission income, trading income and other operating income. This remains a key area of focus for further improvement across the Bank and Group.

The Group's net non interest income increased by 26.4% from Rs. 14.8 billion in 2017 to Rs. 18.7 billion in 2018. Of this, net fee and commission income, which accounted for one third of net non-interest income, increased by 35.3% to Rs. 7.4 billion as compared to Rs. 5.5 billion in 2017. The growth was due to a combination of factors, including, improvement in internal processes resulting in the refinement of deposit related fees across both current and non-current deposits, high trade finance volumes, increased usage of Bank's ATM's and increasing popularity of self-banking channels during 2018.

Net gains, which accounted for 23.9% of total non-interest income, grew by 58.7% to Rs. 4.5 billion in 2018; from Rs. 2.8 billion in the previous financial year. This was primarily due to increase in Foreign exchange trading income by 283.9%

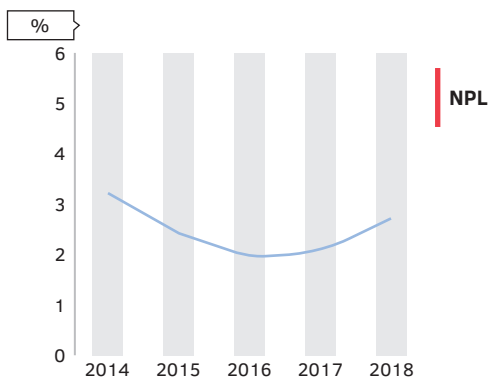
Other operating income increased by 4.9% to Rs. 6.7 billion from Rs. 6.4 billion in 2017. Other operating income consists net earned premiums across the Bank's insurance business and bad debt recoveries.

### IMPAIRMENT CHARGES

Impairment charges rose by 189.2% to Rs. 8.8 billion in 2018 compared to Rs. 3.0 billion in the previous year. The impairment charge in 2018 was relatively high due to the Day 1 impact owing to the migration to the more futuristic SLFRS 9 loss model. This translated to less than 0.1% of the Bank's Consolidated Risk Weighted Assets. The relatively lower impact as compared with the industry is reflective of the more prudent impairment policy adopted by the Bank even under LKAS 39 .

At a bank level, asset quality measured by gross non-performing loans to total loans remained at 2.5%, whilst at Group level it increased to 2.7% from 2.0% recorded in 2017.

The provisioning policy of both at Bank and Group levels continued to be conservative, enabling coverage levels of 72.3% and 71.6%, respectively to be maintained at the end of the financial year 2018.



### COST MANAGEMENT

Total operating costs increased by 21.2% to Rs. 45.1 billion in 2018 from Rs. 37.2 billion in 2017.

#### Personnel costs:

Personnel costs accounted for approximately 53% of total operating costs. The increase was primarily due to the salary increases which came into effect from January 2018 following the renewal of the Collective Agreement on 1st January 2018.

#### Other operating cost:

Other operating costs increased by 13.1% to Rs. 21.2 billion during the year under review from Rs.18.8 billion in 2017. Approximately, one third of the increase was attributable to the telecommunication and marketing and promotional costs associated with the ongoing island-wide roll out of self banking units across the country.

The Group's cost to income ratio increased to 57.7% from 56.6% in 2017. At Bank level, cost to income ratio rose to 57.5% in 2018 from 54.8% in 2017.

Further improvements are expected over the short-to-medium term, amidst enhanced employee productivity and improved operational efficiency resulting from the ongoing Bank's digitalisation drive.

#### Value added tax, NBT& DRL

Increased by 27.7% to Rs.9.4 billion in 2018 from Rs. 7.4 billion in 2017.

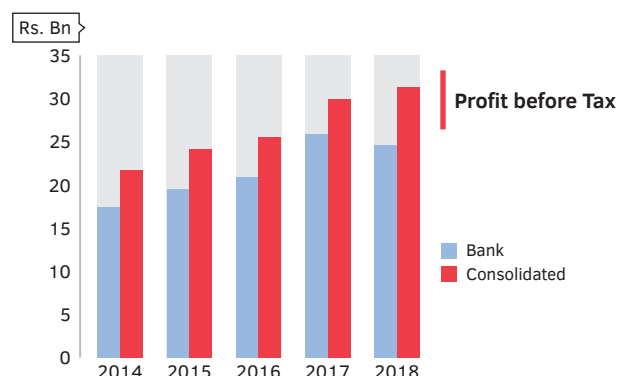
### PROFITABILITY

The Group's pre-tax profit increased by 4.3% from Rs. 29.9 billion in 2017 to a record all time high of Rs. 31.2 billion in 2018.

Meanwhile the Group's Return on equity (ROE) dipped to 18.7% compared to 21.4% in 2017. At Bank level, this ratio was 20.3% compared to 26.6% in the previous year. However what is more important is that the Bank has consistently maintained ROE in excess of 20% for the past 8 years since 2010.

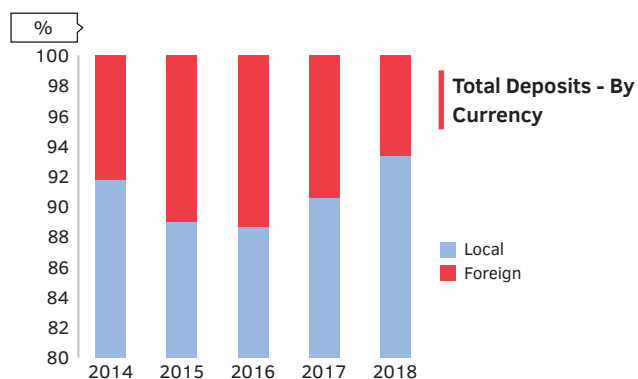
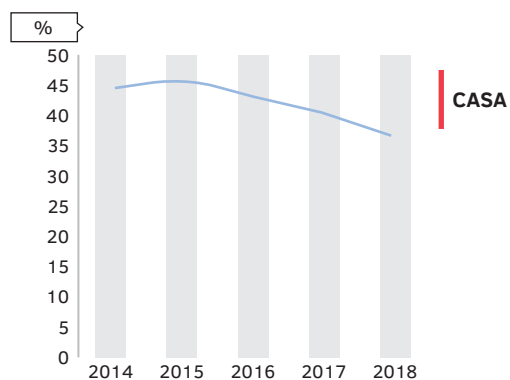
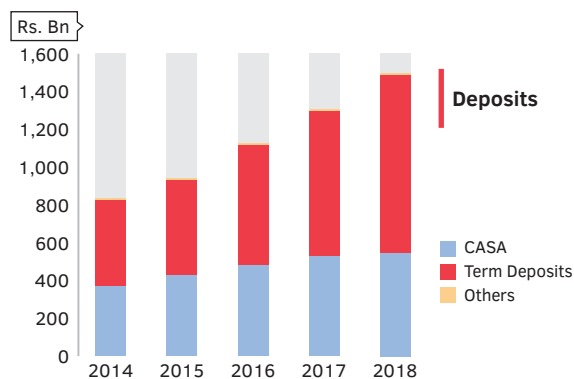
Return on assets (ROA) as measured by pre-tax profits over average assets was maintained at 1.8% in 2018.

Profit after tax increased by 4.8% to Rs. 21.5 billion compared to Rs. 20.5 billion in 2017.



**BALANCE SHEET ANALYSIS****Deposit Growth**

LKR Billion	2013	2014	2015	2016	2017	2018
CASA	288	370	432	484	525	543
Term Deposits	498	456	497	633	771	943
Others	3	3	4	3	9	10
<b>Total</b>	<b>789</b>	<b>829</b>	<b>933</b>	<b>1,120</b>	<b>1,306</b>	<b>1,495</b>
CASA %	36.5	44.7	46.3	43.2	40.2	36.3
Currency						
Local %	92.0	91.8	89.0	88.7	90.6	93.4
Foreign %	8.0	8.2	11.0	11.3	9.4	6.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



The Group's customer deposits increased by 14.5% to Rs.1,495.3 billion as at end 2018 from Rs.1,305.6 billion at the end of the previous financial year.

Deposits which account for approximately 84% of total Bank/ Group funding, reflects the Bank's strong deposit base which is supported by the industry's largest network spread across the country.

Meanwhile as a reflection of the high interest rate environment, CASA dropped to 36.3% in 2018 from 40.2% in 2017, prompting the Bank to implement measures to improve its CASA ratio in the upcoming year.

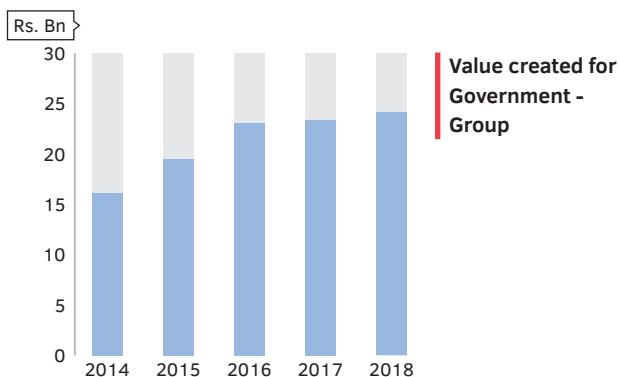
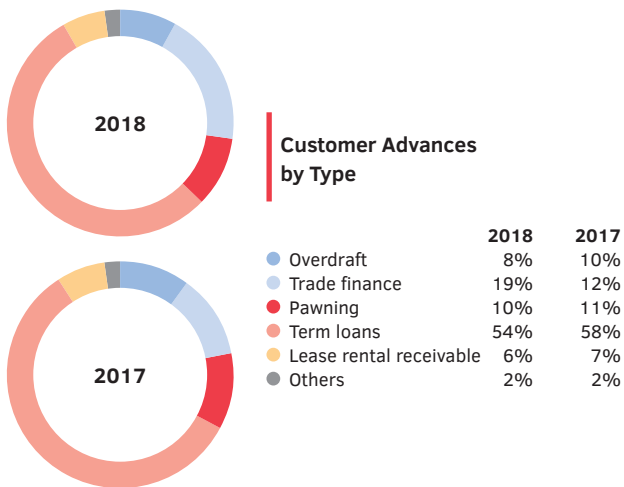
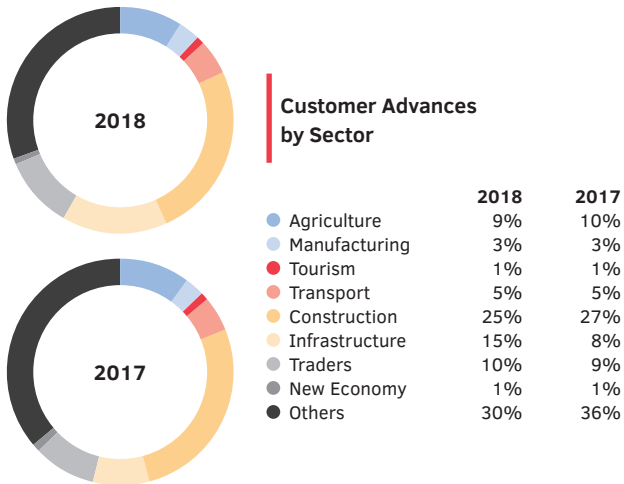
Local currency deposits accounted for 93.4% of total deposits. Improving foreign currency deposits remains a key area of focus in the short to medium term.

**CUSTOMER ADVANCES GROWTH**

LKR Billion	2013	2014	2015	2016	2017	2018
Total advances (gross)	773	782	933	1,076	1,209	1,490
<b>By Type</b>						
Overdraft	67	72	86	58	116	126
Trade finance	103	168	191	177	141	281
Pawning	197	114	104	114	137	150
Term loans	299	335	453	618	700	808
Lease rental receivable	79	77	79	84	89	95
others	27	17	20	24	26	30
<b>Total</b>	<b>773</b>	<b>782</b>	<b>933</b>	<b>1,076</b>	<b>1,209</b>	<b>1,490</b>
<b>By sector</b>						
Agriculture	182	127	106	119	125	139
Manufacturing	13	11	14	21	31	39
Tourism	5	5	4	7	15	22
Transport	16	16	15	26	58	78
Construction	132	156	210	278	331	375
Infrastructure	131	167	199	147	94	224
Traders	76	92	102	110	108	152
New Economy	8	10	-	10	10	10
Others	211	198	282	357	438	450
<b>Total</b>	<b>773</b>	<b>782</b>	<b>933</b>	<b>1,076</b>	<b>1,209</b>	<b>1,490</b>

Gross loans grew by a controlled 23.2% in 2018 to Rs. 1,489.9 billion, compared to Rs. 1,209.2 billion in the previous year. Sovereign backed advances accounted for broadly one third of total customer advances during the year.

## FINANCIAL CAPITAL



The Sector wise exposures were diverse with agriculture accounting for 9.3% of the total customer advances in 2018. Meanwhile approximately, two thirds of construction exposures were housing loans backed by property mortgages.

Despite challenging market conditions, gross non-performing loan ratio of the Group was maintained at 2.7% below the industry average. In 2017 Group non performing ratio was 2.0%.

### REGULATORY CAPITAL

Total Shareholders' Equity increased by 16.0% to Rs. 123.5 billion in 2018 compared to Rs.106.4 billion in 2017.

### KEY PERFORMANCE MEASURES

◆ Basel III Tier I and Total Capital Adequacy Levels were maintained at 11.7% and 14.5% respectively as at 31 December 2018. At end 2017, Tier I and Total Capital Adequacy Levels were 11.5% and 13.7% respectively. At Bank level, Tier I and Total Capital Adequacy Levels were 11.0% and 14.5%, respectively, whilst year end 2017 Tier I and Total Capital Adequacy Levels were 10.8% and 13.5% .

### ◆ Other Basel III measures

- Liquidity coverage ratio, measured by total High Quality Liquid Assets over 30 days Net Cash Outflow, was consistently maintained above 100% throughout the year (minimum requirement was 90%).
- Leverage ratio, measured by Tier I over total gross exposures, was over 3.0% as at 31 December 2018, reflecting the extent of controlled asset growth towards the latter part of the year. Minimum requirement was 3.0% from January 1, 2018 onwards.

### SHAREHOLDER VALUE CREATION

The Bank is a significant contributor to the Government revenue through the payment of direct and indirect taxes, dividends and special levies. Over the past 10 years, the Group has created value exceeding Rs. 170 billion to the Government.

During the year, the total value created for the Government amounted to Rs. 24.1 billion compared to Rs. 23.3 billion in 2017. Of this, over 80% of the value was generated by the Bank.



## MANUFACTURED CAPITAL

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As for any Organization, Manufactured Capital is Fundamental to the Success of our Business. Symbolizing People's Bank's Presence in the Market, our Manufactured Capital Serves as the main Conduit to Reach out to Customers. Challenged by Strong Competitive Pressure, we have Continued to Increase our Investments to Reorient People's Bank's Manufactured Capital towards Becoming more Responsive to Customer Requirements.

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- New **108** Self Baking Units during 2018 to reach total of 210
  - Reaching Total of **715 ATMs** Terminals (25% Growth from 2017)
  - Introducing **People's Wave** Mobile App
  - Over **170,000** new accounts were opened through People's Wiz
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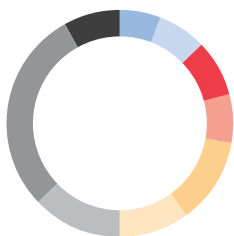
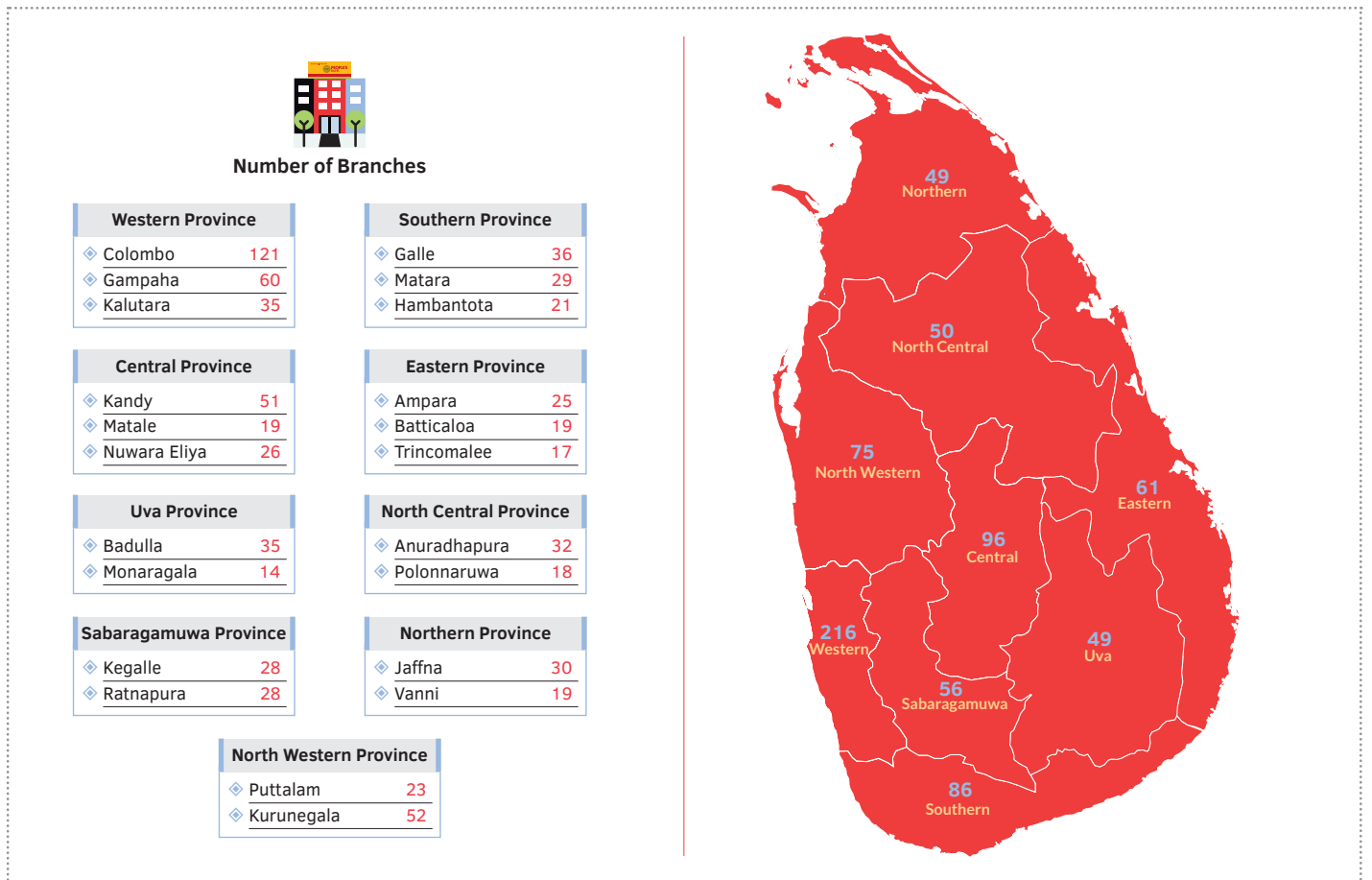
## MANUFACTURED CAPITAL

### BUILDING A UNIQUE FOOTPRINT

#### Branch Network

GRI 102-4, 102-6

Since the inception, our branch network has served as the primary touch point for our customers across the country. Hence we have always placed great importance on the strategic positioning of each of our branches. Based on this, several of our older branches remain housed at bank-owned commercial properties across the country, while many of the newer branches located in regions with growing populations and increased business activity, operate out of leasehold properties.



#### Geographical Distribution of Branch Network

Northern Province	6%
North Central Province	7%
Eastern Province	8%
Uva Province	7%
Southern Province	12%
North Western Province	10%
Central Province	13%
Western Province	29%
Sabaragamuwa Province	8%

We have leveraged on this combined approach to grow our footprint across all provinces and districts in Sri Lanka. And with a network of 738 branches as at 31st December 2018, the Bank lays claim to the strongest and most widespread network in the local banking industry. Given this strong island-wide presence, we have more recently begun pursuing a very selective approach towards branch expansion. Accordingly, no new branches were opened in 2018.

Instead the focus for the year shifted towards consolidating the network and enhancing the branch value proposition. Spearheading the effort is our ongoing network optimization program that aims to maximize the outreach capacity of each branch as well as improve operational efficiency and reduce costs across the network.





*People's Bank inaugurated its 1000th Automated Self Service Machine at Sellakataragama. The ceremonial inauguration of this 1000th Automated Self Service Machine is a valued milestone for the bank as it celebrates its 57th anniversary this year.*

Continuing with the first phase of our network optimization programme, which commenced in 2017 in tandem with our brand relaunch, renewed emphasis was placed on the strategic repositioning of branches leading to the relocation of 09 Branches in 2017, and 17 branches in 2018. Meanwhile in an effort to safeguard the cost structure of our branch model, the terms of several of our lease agreements were further renegotiated with many being renewed for longer tenures.

At the same time we continued investing in our branch infrastructure, with 141 Cash Deposit Machines (CDM) being installed, bringing the total number of on-site CDMs to 238 as at 31st December 2018. We also began setting up of specialized Digital Banking Units (DBU) at identified branches across the country, in part to support our digital transformation strategy. The main aim here was to encourage customers to migrate to our internet banking platform for routine transactions rather than queuing up at counters.

In parallel, we also commenced the next phase of our network optimization program, and began redirecting our attention towards setting up unmanned digital branches equipped with advanced digital capabilities to support customers to fulfill all their banking needs through a do-it-yourself model. A total of 117 digital branches were commissioned in 2018.

#### ATM Network

since the introduction of our first ATM in 1991, we have made a conscious effort to grow our network across the country. Reaching total of 715 ATMs terminals as at 31st December 2018, our ATM network is by far one of the largest and most widely used ATM networks in the country.

As part of our ongoing efforts to upgrade the network, EMV compatibility was introduced in 2018 in partnership with the Lanka Pay network to allow customers who hold chip-based cards from other banks to perform secure transactions using our ATMs.

ATM security was also tightened, with a dedicated team appointed to carry out 24/7 monitoring of all ATM transactions across the entire network.

#### Self-banking Units

Self-banking Units (SBUs) is the latest customer interface introduced under our digitization agenda. A revolutionary new concept, the SBU platform is designed as an independent self-contained ecosystem which allows the customer to perform a range of banking transactions without the need to visit the bank.

The SBUs installation program gained considerable traction in 2018, with 108 new units being commissioned, enabling the island-wide network to reach 210 by end December.

#### DEVELOPING ALTERNATIVE CHANNELS

##### People's Wave

A mobile banking app designed for our retail banking customers, People's Wave was launched to the market in March 2018. Since its launch, it has become the most downloaded finance app in Sri Lanka, gaining an impressive 4.7 rating on Google Play, with over 200,000 downloads within a short span of time, surpassing all other similar apps in the country.

##### People's Web

Our internet banking portal made available for real banking customers through the corporate website. In 2018, the People's Web portal was revamped to improve its alignment with the newly launched People's Wave mobile app.

##### People's Wiz

A digital on-boarding tool that enables customers to open an account without the need for paper forms, People's Wiz was launched in 2018 across 136 branches with the aim of enhancing the customer experience. The move resulted in over 170,000 new accounts being opened using this module.

##### People's Wyn

Available both as an Internet banking portal and a mobile app, People's Wyn is designed for the Bank's corporate clients. The Soft launch of the module was done in July 2018 with a total of 750 customers being registered within the 5 months period ending 31st December 2018.

##### Retail Loan Originating System (RLOS)

A digital solution that is based on a straight-through approval process which aims to speed up retail credit approvals and thereby reduce the time taken between origination and disbursement. Following the soft launch of the RLOS in June 2018, the mechanism had been rolled out across 23 branches as at 31st December 2018.

##### Corporate Loan Originating System (CLOS)

The mechanics of the CLOS are similar to that of the RLOS, with the only difference being that the CLOS is designed to accommodate the needs of corporate customers. The CLOS integration with other modules was completed in December 2018, marking the first step towards our efforts to migrate to an Omni Channel Digital Platform that would facilitate complete end-to-end digital solutions for Corporates.



## INTELLECTUAL CAPITAL

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At People's Bank we consider Intellectual Capital to be a critical driver in executing our strategy and maintaining our position as a leading state bank in the country. Therefore continuous and ongoing investments in our Intellectual Capital focuses on strengthening our intangible asset base to give the Bank a definite competitive advantage over peers.

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- **50%** of country population considered People's Bank as their Financial Service Provider
  - **91%** customer satisfaction
  - Brand Value for 2018 approximately **35 billion**
  - Strong Brand Equity **Index of 3.5**
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**STRATEGIC BRAND BUILDING**

**Brand Distinction**

Since the inception, our brand positioning strategy has continued to evolve in tandem with the market. Nonetheless we have stayed true to our core brand values. Consistent with our brand vision -“to be the undisputed leader for financial services in Sri Lanka”, the Bank has over the years continued to focus on being perceived as the most trustworthy banking partner for every Sri Lankan throughout their lifetime. Thanks to the firm commitment to these principles, our brand has grown from strength to strength over the past 57 years, serving over 10 million customers island-wide as at 31st December 2018. A study commissioned to determine the effectiveness of the revamp of the Bank’s core brand architecture in 2017, revealed the following;

- ◆ 32% Top-of-Mind awareness
- ◆ 50% of the country’s population considered People’s Bank to be the main bank to meet their financial requirements
- ◆ 91% customer satisfaction

Moreover being one of the most recognizable brands in the country today, the LMD Annual Brand Ranking study for 2018 valued our brand value at approximately Rs. 35 billion. People’s Bank was also assigned with a AA brand rating and received an above-average score of 3.5 on the Brand Equity Index (BEI), where 3.0 is considered the industry benchmark for strong Brand Equity. Based on three main pillars; Brand Awareness, Brand consideration and Brand Association, the BEI calculation seeks to determine the customer’s familiarity with the brand vis-a-vis his/her needs, the timeliness and relevance of the bank’s technology and service orientation as well as the level of trust the customer places in the brand. In each case the Bank received above-average scores.



Further testifying to the strength of our brand credentials are the following awards received in 2018;

**SLIM Nielsen People’s Awards 2018**

- ◆ People’s Banking Service Provider of the year
- ◆ People’s Service Brand of the Year

**SLIM Brand Excellence Awards 2018**

- ◆ Service Brand of the Year (Silver)

**Ranking by the Banker Magazine, UK (in terms of ROC)**

- ◆ Ranked the 25th Best Bank in the World
- ◆ Ranked the 5th in the Asia Pacific Region

**The Asian Banker Business Achievement Awards 2018 for Financial Technology innovation Award 2018**

- ◆ The Best Branch Digitalization Initiative, Application or Program Award in Asia Pacific Region

**The European Global Banking and Finance Awards 2018**

- ◆ Best Bank- Sri Lanka 2018
- ◆ Best Corporate Banking Service - Sri Lanka 2018

**National Business Excellence Awards 2018**

- ◆ Winner - Excellence in Local Market Reach
- ◆ Runner Up - Banking Sector

**LankaPay Technnovation Awards 2018**

- ◆ Winner- Bank of the Year for Excellence in Customer Convenience
- ◆ Runner Up - The Most Popular Electronic Payment Product

The first and only state bank to achieve **ISO/IEC 27001:2013** Certification for Information Security Management

## INTELLECTUAL CAPITAL

### Product Distinction

As a multi-service provider, we offer a diversified suite of products and services designed to serve all customer segments ranging from individuals, SME's and micro entrepreneurs to large corporates based in Sri Lanka and across the wider South Asian region. Our products are distinct in that each and every one is an embodiment of our assured value proposition to be the country's #1 provider of affordable financial solutions for the people of Sri Lanka.

To further reinforce this concept, a broad-based rebranding exercise was undertaken in 2018 to realign the personal banking products in line with the new brand architecture and also provide greater visibility for the key brand attributes. Accordingly logos of all key personal banking products were redesigned to introduce greater clarity regarding each products' core proposition.



### STRENGTHENING ORGANIZATIONAL CAPITAL

#### Information Technology and Innovation

As customer behaviour continues to evolve in line with the use of smart devices, Digital & social media; we as a bank have understood the importance of innovating to stay ahead of the competition.

To reinvent ourselves and lead this transformation, we continue to innovate by investing in digital technologies that improve our internal efficiency as well develop new digital offerings that would enhance the customers' banking experience with us. Having completed the new core banking system migration in 2017, in 2018 we moved onto the next phase of our digital road map to create a more agile business model that would help position the Bank as the leading digital bank in Sri Lanka by 2020. Steps taken in this regard included collaborating with internal business units to test the effectiveness of the technology adoption with comprehensive user acceptance testing being done to determine the success of the system integration process.

Moving onto phase 3 of the road map in mid-2018, we commenced system capability testing to verify the system's ability to support new digital applications. This culminated in several key milestones in our digital journey, including the release of the People's Wave app, upgraded version of the Bank's online banking platform, launch of the first-ever fully integrated digital branch and commissioning of over 210 fully integrated self-banking units across the island. The move forms part of a broader strategy to reinforce Bank's position as a progressive digital bank fully attuned to the needs of the new-age customer.

#### Research and Development

With heightened competition in the market, especially from the growing number of technology companies now offering financial solutions, Research and Development (R&D) has become a top priority for the Bank. Our R & D strategy is two-fold, focusing mainly on market research and product research.

Market research goes hand in hand with the customer engagement strategy, where our branch teams continuously engage with their customer base to obtain feedback regarding their experience with our existing portfolio of products, services and channels. Targeted marketing activities are also conducted from time to time to gain insights into the customer's emerging preferences. This process serves as the main feeder for our product research framework.

Our product research activities are spearheaded by our newly commissioned IT resource center. As part of its efforts to improve our R & D capacity, the IT resource center began the groundwork for a new data warehousing solution which would streamline the storage of customer information vis-a-vis a common platform. This would allow the Bank to leverage on the advanced data analytics to obtain more precise in-formation regarding customer preferences, spending patterns etc using AI (artificial intelligence) technology. The full integration of the data warehouse solution is expected to be completed by mid-2019.

### Data Protection and Governance

We understand that Data protection and Governance are cornerstones of maintaining customer trust. Handling over 19.1million customer accounts has made data protection a key priority. We remain fully committed to protecting the privacy of customer data and ensuring the highest level of security to safeguard personal information.

To help maintain the confidentiality and protect personal information, our IT Resource Center has implemented multiple technical and operational safeguards to prevent customer data from being lost, misused, altered, accessed by unauthorized parties or stolen.

Reaffirming its commitment towards this endeavor, in 2018 the Bank invested in a dedicated Security Operating Centre (SOC) which would greatly strengthen our capacity to safeguard customer privacy through advanced industry-based architecture and protocols. The SOC implementation, which commenced in November 2018 is expected to go live by March 2019.

Meanwhile to address the risk of cyber attacks, we continue to monitor threats as they evolve and work towards developing the appropriate counter-measures to prevent a breach. Efforts for 2018 were centered on complying with the new CBSL baseline cyber security standards, which included the appointment of a full-time Information Security Officer (ISO) to oversee all cyber security related matters. We also undertook additional improvements to our cyber security framework as part of the renewal process for the ISO 27001 (Information Security Management) standards certification, where strong emphasis was placed on training in order to build employee capacity,

### Business Continuity Management

Our credibility as a bank is largely dependent on our ability to guarantee system availability at any given time. our Business Continuity Management (BCM) Programme is designed to minimize service disruption and manage its cascading effect on the business, customers, staff and other stakeholders. As part of the BCM program, we maintain an independent tier 3 Data Center as well as a separate Disaster Recovery site, both of which are subject to a quarterly external audit in line with the ongoing maintenance agenda.

Moreover, a board approved BCM Policy together with detailed Business Continuity and Disaster Recovery plans and procedures are in place to address risk scenarios and potential threat events. Targeting a less than 03 hour timeline for the recovery of critical processes and systems from the time of its activation, BCPs are focused on maintaining critical processes, including treasury, capital & liquidity and payment services, providing customers with uninterrupted access to their funds and maintaining effective communications with our customers, staff and other stakeholders.



## HUMAN CAPITAL

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Operating in a highly competitive and ever-evolving industry, we readily acknowledge that the skills, experience and commitment of our employees are the key to realizing our vision “to be recognized as Sri Lanka’s undisputed market leader for financial services”. Premised on this, our human capital management strategy aims to sustainably enhance the Bank’s competitive advantage. As such, our comprehensive Human Capital Development Framework is designed to attract, develop and retain the best talent in the industry, with the capacity to drive the Bank’s growth aspirations.

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- **8,093** employees across Sri Lanka
  - Over **60%** of female employees
  - **20 hours** of training per employee
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**GOVERNANCE**

The People's Bank's Board is the apex body in charge of formulation of HR policies. The Board has delegated responsibility to Board Human Resources and Remuneration Committee to execute Bank's strategy. Based on the directions of the Board Human Resources and Remuneration Committee, the Human Resource Department (HRD) implements the HR Strategy. Headed by the SDGM (Legal/HR) & Secretary to the Board and DGM - HR, the HRD is tasked with reviewing and realigning the people strategy to support the Bank's strategic direction.

**HUMAN CAPITAL PROFILE**

	2014	2015	2016	2017	2018
Male Employees	3,439	3,443	3,367	3,402	3,184
Female Employees	4,717	4,925	4,882	5,052	4,909
Total Employees	8,156	8,368	8,249	8,454	8,093
Profit per Employee (Rs. '000)	1,743	1,505	1,818	2,159	2,112
Revenue per Employee (Rs. '000)	11,817	12,368	14,804	19,182	22,980

**GRI 102-8****TOTAL EMPLOYEES BY EMPLOYMENT CONTRACT AND GENDER**

	2017 (Nos.)			2018 (Nos.)		
	Male	Female	Total	Male	Female	Total
Permanent Staff	2,931	4,622	7,553	2,829	4,608	7,437
Contract Staff	471	430	901	355	301	656
<b>Total</b>	<b>3,402</b>	<b>5,052</b>	<b>8,454</b>	<b>3,184</b>	<b>4,909</b>	<b>8,093</b>

All employee categories as indicated above are on full time basis.

**GRI 102-8****TOTAL WORKFORCE BY GEOGRAPHIC DISTRIBUTION AND GENDER FOR 2018**

	Male		Female		Total		Total %	
	2018	2017	2018	2017	2018	2017	2018	2017
Western	1,183	1,270	2,007	2,055	3,190	3,325	39.4	39.3
Southern	298	322	548	563	846	885	10.5	10.5
Central	309	343	545	546	854	889	10.6	10.5
Nothern	185	191	201	216	386	407	4.8	4.8
North Central	230	247	304	323	534	570	6.6	6.7
Uva	221	229	263	287	484	516	6.0	6.1
Sabaragamuwa	209	216	348	356	557	572	6.9	6.8
North Western	256	271	385	401	641	672	7.9	7.9
Eastern	293	313	308	305	601	618	7.4	7.3
<b>Total</b>	<b>3,184</b>	<b>3,402</b>	<b>4,909</b>	<b>5,052</b>	<b>8,093</b>	<b>8,454</b>	<b>100.0</b>	<b>100.0</b>

## HUMAN CAPITAL

GRI 405-1

### TOTAL PERMANENT EMPLOYEES BY EMPLOYMENT TYPE, GENDER AND AGE GROUP 2018

Age	Corporate Management		Executive Management		Officers (3-111 - Grade 1)		Staff Assistant Grade		Other Categories		Management Trainees		Customer Service Assistants		Other Contracted Employees		Grand Total		Grand Total (%)	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
18-25									22	20		5	1	1	56	22	79	48	62.2	37.8
26-45	1			1	639	1,425	819	1,877	423	407	53	110	22	73	130	73	2087	3,996	34.5	65.5
46-55	4	4	7	3	398	545	74	11	238	148					51		772	711	52.1	47.9
Above 56	9	4	10	10	136	143	14		77	27							246	184	57.2	42.8
Grand Total	14	8	17	14	1,173	2,113	907	1,888	760	602	53	115	23	74	237	95	3,184	4,909	39.3	60.7
Percentage (%)	63.6	36.4	54.8	45.2	35.7	64.3	32.5	67.5	55.8	44.2	31.5	68.5	23.7	76.3	71.4	28.6	39.3			

### TOTAL EMPLOYEES – DEPARTMENT WISE FOR 2018

	No of Employees		
	Permanent	Contract	Total
Branches	5,454	396	5,850
RHO	787	111	898
Treasury & PDU	31	5	36
Corporate & OSBU	158	18	176
OCS	86	3	89
PCC	46	14	60
Head Office	875	109	984
Total	7,437	656	8,093

### TOTAL EMPLOYEES BY AGE AND GENDER

Age	2018			2017		
	Female	Male	Total	Female	Male	Total
56 >	185	255	440	236	364	600
46 - 55	709	763	1,472	733	782	1,515
26 - 45	3,959	2,084	6,043	3,836	2,106	5,942
18 - 25	56	82	138	247	150	397
Total	4,909	3,184	8,093	5,052	3,402	8,454

### TOTAL EMPLOYEES BY YEARS OF SERVICE 2018

	No. of Years of Service						Total
	< 2	3- 10	11 - 20	21-30	31 - 35	> 36	
No. of employees	697	4,027	1,479	1,647	61	182	8,093



**TOTAL EMPLOYEES BY EMPLOYMENT CATEGORY AND YEARS OF SERVICE 2018**

Category	No. of Years of Service						Total
	< 2	3- 10	11 - 20	21-30	31 - 35	> 36	
Corporate Management	-	-	-	6	9	1	16
Executive Management	-	-	3	9	14	2	28
Officers (3-111-Grade 1)	53	667	1,304	1,073	27	162	3,286
Staff Assistant Grade	-	2,546	136	109	-	4	2,795
Other categories	133	721	34	450	11	13	1,362
Corporate Management-Contract	3	1	2	-	-	-	6
Executive Management-Contract	3	-	-	-	-	-	3
Management Trainees	168	-	-	-	-	-	168
Customer Service Assistants	97	-	-	-	-	-	97
Other Contracted Employees	240	92	-	-	-	-	332
<b>Total</b>	<b>697</b>	<b>4,027</b>	<b>1,479</b>	<b>1,647</b>	<b>61</b>	<b>182</b>	<b>8,093</b>

**STRATEGIC TALENT SOURCING****Recruitment**

Being a state institution, Bank is required to follow a very detailed recruitment process in compliance with national regulations. Our policies are further aligned to the human rights principles outlined by the UN Global Compact and other related labour standards.

People's Bank is a non-discriminatory employer and is fully committed to diversity in the work-place. As such, we hire based on the candidate's suitability for the specific job role, vis-a-vis their qualifications, experience and mindset. Hence we recruit qualified individuals who have the potential for growth and advancement, and demonstrate the capacity to handle greater responsibility.

Competency testing and a formal interview process are the main pre-requisites of Bank's highly transparent recruitment process. Employment and appointment terms are subject to strict compliance with the rules and regulations and applicable common law.

**GRI 202 -2**

As per the current recruitment strategy in place, a majority of Bank's recruitments are made at entry level, with mainly management trainees and customer service assistants being recruited on a regular basis. One of the key components of this strategy is the local hiring policy, whereby the bank strives to employ suitable candidates from all regions where Bank has a branch presence. In order to widen its reach across the country, the recruitment criteria for management trainees was further expanded recently, testifying to Bank's commitment to build a more inclusive workforce. Meanwhile all recruitments for Bank's senior management positions are citizens of Sri Lanka.

Meanwhile stemming from Bank's Digital Strategy launched in 2017, in 2018 the HRD began focusing on developing an agile and highly responsive workforce with the capacity to spearhead the Bank's digital transformation agenda. For this purpose, the Bank made a series of recruitments to spearhead the Digital Banking environment.

**GRI 401-1****RECRUITMENT BY AGE GROUP AND GENDER FOR 2018**

Age Category	Male Nos.	Female Nos.	Total Nos.
18-25 years	3	-	3
26-45 year	9	-	9
46 -55 years	1	-	1
56 + years	-	-	-
<b>Total</b>	<b>13</b>	<b>-</b>	<b>13</b>

## HUMAN CAPITAL

## NEW RECRUITMENTS BY REGION AND GENDER FOR 2018

Region	Male	Female	Total	Male %	Female %
Anuradhapura	1	-	1	8	-
Badulla	4	-	4	31	-
Batticaloa	-	-	-	-	-
Colombo	6	-	6	46	-
Gampaha	-	-	-	-	-
Galle	-	-	-	-	-
Jaffna	-	-	-	-	-
Kandy	-	-	-	-	-
Kalutara	-	-	-	-	-
Kurunegala	-	-	-	-	-
Kegalle	2	-	2	15	-
Matara	-	-	-	-	-
Matale	-	-	-	-	-
Nuwara Eliya	-	-	-	-	-
Rathnapura	-	-	-	-	-
Ampara	-	-	-	-	-
Trincomalee	-	-	-	-	-
Polonnaruwa	-	-	-	-	-
Monaragala	-	-	-	-	-
Puttalam	-	-	-	-	-
Wanni	-	-	-	-	-
Hambantota	-	-	-	-	-
<b>Total</b>	<b>13</b>	<b>-</b>	<b>13</b>	<b>100</b>	<b>-</b>

## EMPLOYEE TURNOVER BY REGION AND GENDER - 2018

Region	Male	Female	Total
Ampara	11	1	12
Anuradhapura	1	2	3
Badulla	7	5	12
Batticaloa	4	-	4
Colombo	87	62	149
Galle	6	7	13
Gampaha	13	11	24
Hambantota	5	1	6
Jaffna	1	2	3
Kalutara	7	7	14
Kandy	14	13	27
Kegalle	5	6	11
Kurunegala	14	3	17
Matale	7	1	8
Matara	14	4	18
Monaragala	1	1	2
Nuwara Eliya	6	2	8
Polonnaruwa	2	-	2
Puttalam	5	3	8
Rathnapura	7	4	11
Trincomalee	3	4	7
Wanni	2	3	5
<b>Total</b>	<b>222</b>	<b>142</b>	<b>364</b>

## EMPLOYEE TURNOVER BY AGE GROUP AND GENDER - 2018

Age Category	Male	Female	Total No.
18-25 years	4	1	5
26-45 year	22	39	61
46 -55 years	18	8	26
56+ years	178	94	272
<b>Total</b>	<b>222</b>	<b>142</b>	<b>364</b>

## Compensation and Benefits

In managing its 8,093 strong cadre, Bank remains committed to ensure all employees receive fair and competitive remuneration in line with the nature of the job. We have a sound compensation policy in place to ensure our salary and benefit structures remain on par with industry standards.

## EMPLOYEE TURNOVER BY AGE GROUP GENDER AND EMPLOYMENT CATEGORY - 2018

	18-25 years		26-45 year		46-55 years		56 years and above	
	Male	Female	Male	Female	Male	Female	Male	Female
Corporate Management	-	-	-	-	1	-	1	-
Executive Management	-	-	1	-	-	-	1	2
Officers (3-111-Grade 1)	-	-	7	18	5	7	124	82
Staff Assistant Grade	-	-	3	12	1	-	6	2
Other categories	-	-	2	-	7	1	44	8
Customer Service Assistants	-	-	1	-	-	-	-	-
Other Contracted Employees	4	1	11	9	4	-	2	-
<b>Total</b>	<b>4</b>	<b>1</b>	<b>23</b>	<b>39</b>	<b>18</b>	<b>8</b>	<b>178</b>	<b>94</b>

**GRI 401 - 2**

All permanent employees are provided numerous other benefits based on employment category, including bonuses, traveling allowances for certain grades, holiday bungalows, staff loans, medical benefits, death gratuity, personal accident insurance scheme, disability and invalidity cover, maternity leave and retirement benefits.

The collective bargaining agreement in place covers 99% of Bank's cadre, with all pay / benefit increases incorporated through the renewal cycle every three years. The agreement was renewed in January 2018, for the period 01st January 2018 - 31st December 2020.

**GRI 401-3**

**MATERNITY LEAVE**

	2014	2015	2016	2017	2018
No. of employees entitled to maternity leave	3,093	3,430	3,690	4,611	4,893
No. of employees who took maternity leave	773	566	536	230	517
No. of employees who returned to work after maternity leave	773	566	536	230	517
Returned to work (%)	100%	100%	100%	100%	100%

The ratio of basic salary and remuneration of women to men by employment category is 1:1. All female employees who availed themselves to parental leave over the last 5 years have returned to work after completion of parental leave.

**GRI 405-2**

**RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN - 2018**

	Male	Female
Corporate Management	1	0.97
Executive Management	1	1.02
Officers (3-111 - Grade 1)	1	1.14
Staff Assistant Grade	1	1.16
Customer Service Assistants & Other	1	1

However, this ratio may change due to different service periods of employees in the bank and at a particular salary grade.

**STRATEGIC TALENT MANAGEMENT**

**GRI 404-3**

**Performance Review**

We believe a strong performance culture is critical if the Bank is to achieve delivery on its promise of sustained performance. Hence we expect all the Bank's employees to be performance-driven. For our part we remain committed to recognize each one in line with their relative performance. This is facilitated by the annual performance review

mechanism, where superiors are tasked with reviewing the performance of employees under their purview. The performance review process also provides the opportunity for employees to receive feedback regarding their performance along with suggestions for improvement, determine their training needs and receive recommendations to support career mobility. In 2018, 100% of the Bank's employees received the annual performance review.

In an effort to further streamline the performance review mechanism, a new two-way review module was rolled out for employees in the Senior Management. The new mechanism is designed to provide a more comprehensive view with the performance of an employee being reviewed not only by the immediate superior but also by employees under his / her purview. A total of 59 employees in the Senior Management cadre and above categories benefitted from this new performance review mechanism in 2018.

**Promotions and Transfers**

Taking a broader and deeper approach to talent management, we strive to enable our people to take on expanded roles as they grow with us. Typically, we encourage employees to take advantage of professional development and career advancement opportunities by considering transfer or promotion offers that may open up from time to time. This also ensures that internal controls applicable to financial institutions are also adhered.

Our Promotions and Transfer policies are designed to facilitate vertical and lateral career movement that would serve to enhance the prospects of our employees within the Bank. Each policy consists of a comprehensive set of guidelines to ensure all promotions are merit-based and all transfers are in line with the directives for financial institutions.

**GRI 404-2**

**Training and Development**

We are committed to the continuous development and education of our employees at all levels and ensure that they receive the necessary training needed to maintain maximum effectiveness in the performance of duties and responsibilities. HRD continues to leverage on the blended learning approach combining both in-house training and external training where relevant. The annual training plan focuses mainly on training activities to help our employees to cope with changes in the business environment, new technology, banking regulations and industry best practices as well as to prepare them for career advancement. This is coupled with continuous coaching and mentoring which allows for knowledge sharing and providing continuous developmental support to employees. Leadership development is another key component of our training strategy, where we invest in targeted development activities to help our leaders transition to the next level.

The training focus for 2018 was centered on building a digital workforce capable of supporting the Bank's Digital Transformation Strategy which aims to make People's Bank the First fully-digitized bank in Sri Lanka. As a first step, several highly-focused training activities were carried out specifically for the IT team.

## HUMAN CAPITAL

Year	Training Cost (Rs. Mn)	Training Hours	Average training hours per employee
2014	68	183,340	22.5
2015	66	180,849	21.6
2016	71	183,460	22.2
2017	72	199,956	23.6
2018	74	161,378	19.9

Type of Training	No. of programs	No. of participants	Training hours
Internal training programs	398	22,062	151,390
External training programs	161	719	8,244
Foreign training	18	41	1,744
<b>Total</b>	<b>577</b>	<b>22,822</b>	<b>161,378</b>

## TRAINING HOURS BY EMPLOYMENT CATEGORY AND GENDER FOR 2018

GRI 404-1

Employment category	Average training hours	
	Male	Female
Corporate Management	21	39
Executive Management	22	25
Officers (3-III - Gr I)	25	24
Staff Assistant Grades	20	20
Management Trainees	49	49
Customer Service Assistants	8	9

## Rewards and Recognition

We believe rewarding and recognizing our people in other ways is also a very potent motivator to ensure that they continue to aim for excellence. "The Achievers" Award program acknowledges high-performing employees and help foster a positive working environment and inspire a more productive work dynamic, while the Bank's Long Service Awards platform, in place since 1986 recognizes employee loyalty towards the Bank.

GRI 403-1

## Safety and Wellbeing

The safety and wellbeing of our employees is of paramount importance. The Bank is committed to providing a safe working environment for all employees and takes appropriate measures to ensure that health and safety concerns are prioritized and addressed across the Bank. We comply with all applicable safety standards at the Bank Head Office, Innovation Center and across the branch network and also make a concerted effort to promote a safety culture by raising awareness among employees and conducting training in order to improve their preparedness in the event of an incident. There were no work-related employee fatalities reported in 2018. Presently Bank doesn't have an occupational health and safety committee. We have set-out clear guidelines to ensure the safety of all those within our premises at any given time.

## EXPENSES INCURRED IN RELATION TO HEALTH AND SAFETY IN 2018

Health and Safety Expenses	Rs.million
Medical Expenses	1,605
Fire and Safety	107
<b>Total</b>	<b>1,712</b>

Our wellbeing programmes are aimed at helping employees destress and supporting a healthy work-life balance. We have a range of initiatives to support the physical well-being of our employees, including a fully equipped gym, regular yoga and other fitness related activities organized by the Bank. Emotional support is also offered by way of stress management training, while all employees can participate in Bank's annual sports meet and other social events organized by the Bank.

## BUILDING A DISTINCT CULTURE

GRI 402-1

## Employee Communication

We expect our employees to stay engaged and make an impact on Bank's future by sharing their opinion. Open communication is therefore an essential part of our culture. Our open-door policy is meant to encourage employees to freely communicate with their superiors. Several formal channels are also available for this purpose including; the weekly team briefings, monthly branch meetings, regional conferences etc

Employees are given adequate notice of any operational changes and its impacts. This significantly contributes to reducing any adverse impact on staff morale due to such changes. Given below are the minimum notice periods to operational changes.

Type of Change	Notice period
Transfers	2 weeks
Resignations	1 month
Retirements	3 months
Terminations	1 - 3 months

GRI 102-41

## Collective Bargaining

The Bank has formal collective bargaining agreements with employee unions. Staff members up to the category of chief managers are covered by collective agreements, which reflects 94.7% of the bank's employees. There are no identified restrictions from the Bank's operations in relation to freedom of association and collective bargaining. The Bank maintains continuous and ongoing dialog with the trade unions and works collaboratively with such employee representatives to ensure alignment with the Bank's strategic objectives. Testifying to the strong relationship the Bank has with the Trade Union, the collective bargaining agreement was renewed on 01st January 2018 for a further period of three years.

During the year, there were no major disruptions to work arising from any form of industrial action.

Employee Union	No of Employees
The Ceylon Bank Employee's Union	6,627
Officers' Union	388
Sri Lanka Nidahas Banku Sevaka Sangamaya	71
Jathika Sevaka Sangamaya	536
All Ceylon Bank Employees' Union	43
<b>Total</b>	<b>7,665</b>

**Grievance Handling**

Another key aspect of our corporate culture is the way we handle employee grievances. All employees are strongly encouraged to speak with their immediate supervisor to resolve any concerns. However for issues that cannot be resolved in this manner, employees have access to Bank's formal grievance handling procedures. The CEO/General Manager who has the authority over the Redress Committee appoints a panel consisting of corporate management members to provide further clarification to the grievances and provide remedial measures to redress the grievances raised by employees. All grievance committee proceedings are handled transparently and with due respect to the employee seeking redress.

**Employee Satisfaction Survey**

As part of our employee engagement strategy, we conduct an annual Employee Satisfaction Survey. The main purpose of these staff engagement surveys are to ascertain the extent to which employees are motivated to contribute towards organizational success and the commitment towards achieving the corporate goals. Staff engagement surveys are carried out annually through a random sample of employees from the Bank. During the year, 150 employees were covered under staff surveys.

**STAFF ENGAGEMENT – 2018 (PARTICIPANTS)**

Designation	Male	Female	Total
Deputy General Manager	1	-	1
Assistant General Manager	2	1	3
Chief Manager	2	-	2
Senior Manager	4	3	7
Manager	6	4	10
Deputy Manager	8	14	22
Assistant Manager	10	11	21
Staff Assistant	23	26	49
Office Assistant & Below	12	3	15
Secretary And Allied Grade	3	17	20
<b>Total</b>	<b>71</b>	<b>79</b>	<b>150</b>

GRI 102-16, 102-17, 102-26, 205-2, 205-3

**Ethics and Integrity**

We believe our values are central to advocating ethics and integrity across the Bank in strengthening our future sustainability. In line with Bank's value statement we expect all employees, management and the

Board to conduct themselves with the highest standards of ethics and integrity at all times. Ethics and Integrity is enforced across the Bank, vis-a-vis the following policies and procedures;

- ◆ Code of Corporate Governance-a formal document containing the values and conduct of the Group that sets the tone for all employees, management and Board of Directors to ensure ethical behavior and integrity within the Group
- ◆ Code of Conduct for employees - All employees of the Group are expected to abide by the code of conduct and are required to sign the code upon being employed by the Group. The code was revised during the current financial year to strengthen its application.
- ◆ Anti-Bribery and Anti- Corruption Policy - We maintain a clear policy to ensure all of our business activities are conducted in an honest and ethical manner. We take a zero-tolerance approach to Bribery and Corruption and insist that all our employees act professionally, fairly and with integrity in all their business dealings and relationships maintained in an official capacity. We conduct regular training to communicate the Bank's Anti-Corruption policy among our employees and take strict disciplinary action to deal with reported cases of corruption.

During 2018, a total of 9,848 training hours was dedicated towards anti-corruption training.

Type of Change	Number	%
Total number and percentage of Governance body members to whom the Organization's anti-corruption policies and procedures have been communicated	All	100
Total number and percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	All	100
Total number and percentage of employees who have received training on anti-corruption	1,231	15.2
Total number and nature of confirmed incidents of corruption*	159	N/A
Total number of confirmed incidents in which employees were dismissed or disciplined for corruption	143	N/A

\* These corruptions are related to granting of loans and advances, ATM frauds, savings & current accounts, misconducts of documents and misbehavior of staff.

- ◆ **Disciplinary Code** - A formal document that defines what is construed as misconduct and sets out the formal disciplinary procedure applicable in such instances
- ◆ **Whistle blower Policy** - The whistle blower policy is a further measure against misconduct and corruption reflecting the Bank's zero tolerance approach towards corruption. The Bank has appointed a Director to review such complaints. An employee can report the following issues to the immediate supervisor or directly to the Board Audit Committee. The anonymity is guaranteed to safeguard the employee:
  - i. Breach of the Disciplinary Code
  - ii. Failure to comply with legal/regulatory obligation
  - iii. Miscarriage of Justice
  - iv. Financial malpractices

## SOCIAL AND RELATIONSHIP CAPITAL (CUSTOMER)

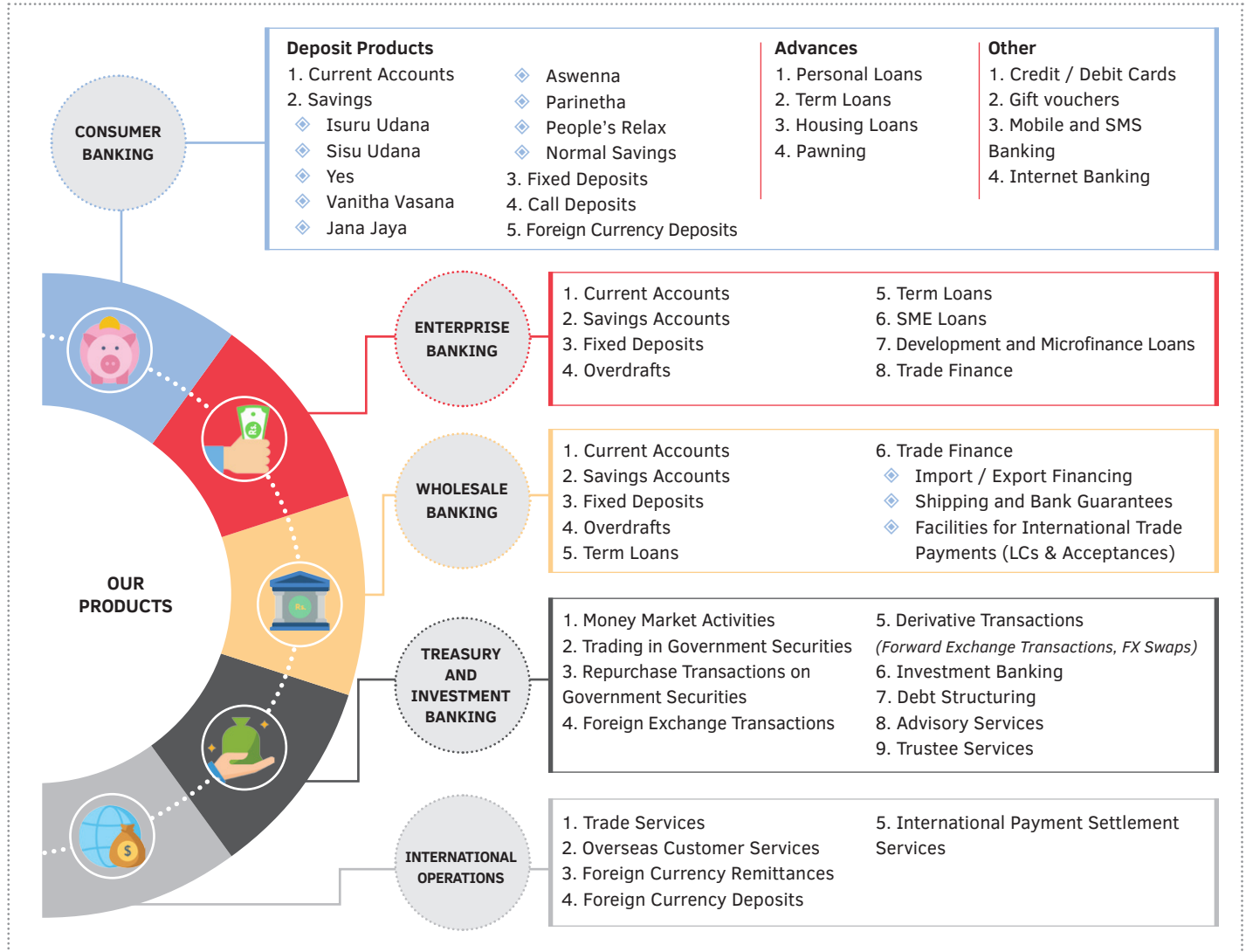


## SOCIAL AND RELATIONSHIP CAPITAL

As a bank, our success depends largely on customer trust. At People's Bank, we remain heavily invested in building and maintaining the trust of our customers not merely by fulfilling their needs but rather exceeding their expectations every single time.

- **Rs. 19.1 million** customer accounts
- **738** customer touch points
- **Rs. 12.8 billion** value delivered to suppliers
- **73** Global partnerships over 20 years relationship
- Invested **Rs. 42.3 million** on CSR projects
- **42,511** community based development loans granted

GRI 102-2



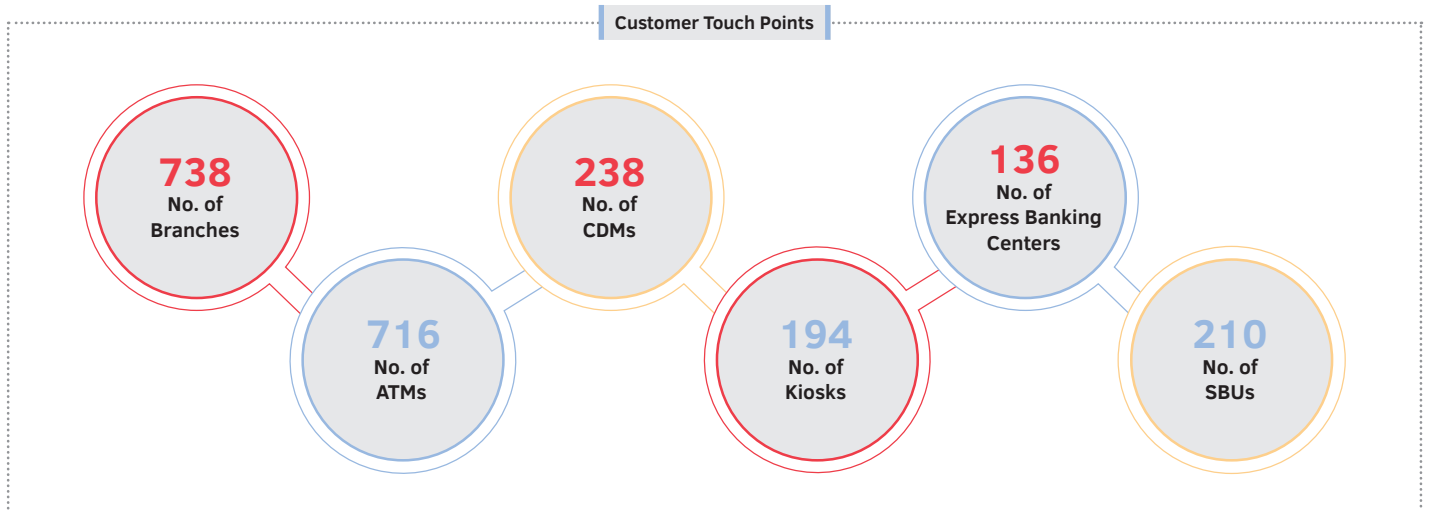
**CUSTOMER EXPERIENCE MANAGEMENT**

Customer Convenience - We want to be known as the bank that provides the best in-class financial solutions in the market. This means creating a compelling value proposition that differentiates our bank from peers.

To do this we focus on three key areas.

Focus Areas	Key highlights for 2018	Measure of success
Investing in digital channels	Launch of the "People's Wave" Mobile banking app	300,000+downloads
	Commissioning of 200+ SBU's	
	Launch of the first digital branch	
Streamlining Processes	Launched of people's WIZ which enable onboarding customers in less than 10 minutes with WIZ Account opening and obtain personal through WIZCredit within a day without any paper.	
Strengthening our culture of service delivery	Incurred a significant amount on training to improve customer orientation among frontline staff as well as call center personnel	Improvement in response times at the call center
	Commissioning of the first off-site cash deposit machine at Ananda College Colombo	

## SOCIAL AND RELATIONSHIP CAPITAL (CUSTOMER)



GRI 417-1, 417-2, 417-3

### TRANSPARENCY OF INFORMATION

In keeping with our commitment to integrity, we strive to give our customers all necessary and relevant information to help them make informed decision when deciding to transact with us. Accordingly, our aim is to ensure that the information we provide regarding our products and services is clear, understandable, accurate, and accessible.

Equally importantly we ensure that the information communicated to our customers through all platforms, including print and electronic media as well as the corporate website and social media channels such as You Tube, Instagram and Facebook, remains consistent with board-approved marketing policies and comply with all relevant regulatory requirements. These print electronic media and corporate website are in three languages of English, Sinhala and Tamil. Hence all our communications are based on principles of ethical and responsible advertising displaying consistency with the Bank's branding guidelines and all marketing communications are subject to strict scrutiny and a multi-level approval process prior to publication. Moreover, all mandatory disclosures such as interest rates, exchange rates etc. are openly displayed at our branches.

Our employees receive regular training to enhance their product knowledge along with special training to help them understand customers' needs, recommend suitable products, perform credit evaluations etc.

During the year under review, there were no reported incidents of non-compliance pertaining to product and service information and labelling, marketing communications, or any voluntary codes or other guidelines.

### CUSTOMER PRIVACY

We understand that retaining the trust of our 10 million+ customers is largely pivoted on our ability to ensure the security of client account information and other personal data. To safeguard customer privacy, we utilize enhanced verification processes across all delivery channels. For example, across our online platforms, multilevel security verification procedures are used prior to processing transactions, while our Call Center personnel conduct several layers of positive identification before proceeding to assist customers with their needs. In addition, we use the corporate website, social media accounts, email announcements, and ATM screen displays to continuously raise awareness among customers about potential information security threats and provide them with practical and useful content on how best to protect themselves against any such a breach.

### FRAUD PREVENTION

Demonstrating our commitment toward the prevention of fraud, we have implemented stringent control systems to protect our customers from possible financial theft. This framework of systems and procedures is designed to ensure that all banking transactions are secure and reliable, whether conducted through the branches or e-banking channels. Regular inspections are carried on our ATMs and SBUs to assess for PIN/card data skimming devices, with strict procedures in place for reporting fraud cases and captured/missing/stolen cards. We also conduct awareness campaigns through email, posters and social media to encourage our customers to take extra precautions to prevent misuse of their PIN, ATM and credit cards. Further we train our branch staff to advise customers on protecting personal information and accounts against fraud and misuse.



### COMPLAINT MANAGEMENT

We provide our customers a diverse selection of channels to communicate their inquiries and concerns, with each issue seen as a welcome opportunity to improve our services and enhance the customer experience with us. All concerns reported through these channels are documented and handled in compliance with existing bank prescribed guidelines. At our 24 hour Call Center, we have implemented a reliable Incident Management System to log and monitor customer concerns. All complaints received are logged in and then escalated to relevant regional manager for necessary action, while recurring complaints and grievances pertaining to employees are directed to the bank's internal investigations and inquiries department for review and action.

As a policy all customer complaints are required to be resolved and the complaint loop closed within a maximum of 2 working days. Once the complaint loop is closed, a customer call out is made to verify if the customer is satisfied with the manner in which the complaint was handled and the resolution provided for the grievance.

Should the customer be unsatisfied with the outcome, they have the option to escalate their grievance directly to the Financial ombudsman, whose contact details are displayed at every branch.

Meanwhile complaints pertaining to the breakdown of ATMs are monitored by the Central ATM Control department, with any complaint regarding a breakdown immediately reported to the relevant branch and prompt action taken in order to maintain our targeted uptime of 99.9%.

### DETAILS OF CUSTOMER COMPLAINTS RECEIVED IN 2018

Details	Numbers
Number of Customer Complaints Received	393
Number of Customer Complaints Resolved	316
Pending Complaints	
- Pending Investigations	12
- In Progress	65

GRI 416-1, 416-2

### CUSTOMER HEALTH AND SAFETY

Part of our commitment to our customers includes ensuring that our products, services or channels do not pose a risk to their health or safety. We operate in strict compliance to the CBSL customer charter and do not sell or market products or services which are banned in the market or subject to stakeholder or public debate. We do not finance any illegal project which is documented as illegal in our credit policy.

Our efforts to provide transparent information as well as our initiatives regarding customer privacy, fraud prevention and complaint handling as outlined above, also ultimately support the health and safety of our customers.

Furthermore, we have put in place all necessary safeguards to ensure that we provide a safe and secure environment for our customers to do their banking, be it at our branches, ATMs, SBUs or through our online platforms. Our physical touch-points are equipped with all necessary safeguards in conformity with national safety regulations. This is in addition to 24-hour CCTV monitoring.

During the year, there were no reported incidents of non-compliance concerning the health and safety impacts of products and services.

## SOCIAL AND RELATIONSHIP CAPITAL (SUPPLIERS)

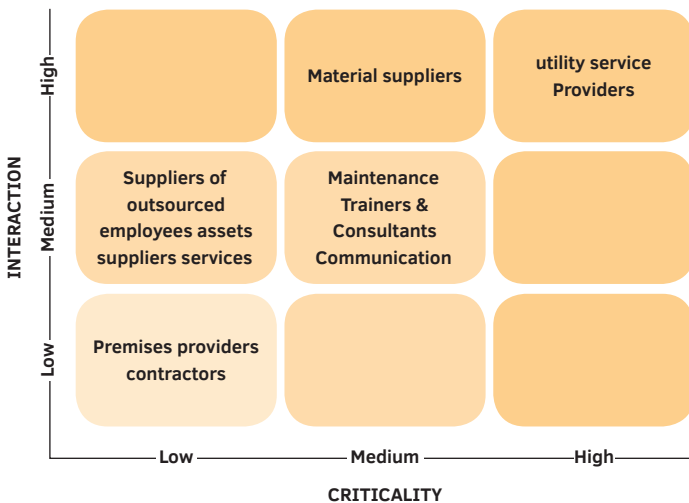
At People's Bank, we see our suppliers as strategic business partners who have an important role to play in ensuring our business functions smoothly and is able to meet stakeholder deliverables. It is therefore our aim to develop a network of suppliers who share the same ethics and values we are striving to enforce in our own activities. In doing so we emphasize and promote fair business practices, openness, and equal opportunities in our relationships with both present and future suppliers.

**GRI 102-9**

**SUPPLIER CHAIN MANAGEMENT**

**Supplier Prioritization**

we prioritize our suppliers based on two key elements; 1) the risk to our business in the event of a disruption or delay in the supply of the particular product or service and 2) the degree of interaction needed to sustain the relationship.



**Procurement Policy**

Irrespective of their priority level, all suppliers are subject to our Board approved procurement policy which is driven by the supplier registry updated annually. Registration of suppliers is called in the second half of the calendar year by publishing an advertisement which requires suppliers to be registered under 13 different categories, with suppliers registering under multiple categories required to submit separate applications for each category. We also call for registrations from local service providers for specific requirements for our branch network.

We evaluate the performance of suppliers on the basis of the criteria for quality, cost, service delivery and payment flexibility. Additional verification is done through the suppliers financial statements as well as an examination of the CRIB report. Thereafter, a Technical Evaluation Committee would discuss and arrive at the final decision to determine which suppliers are to be registered for given year. All procurement activities are then conducted through a tender process open to all registered suppliers. If a registered supplier fails to quote for 3 consecutive tenders their registration is likely to be terminated. Moreover if a contracted supplier fails repeatedly to supply the goods awarded on time the registration could be terminated.

**Long term relationships**

By restricting our tender procedure (except public tenders) to registered suppliers only, we are seeking to build long-term business partnerships. Our aim is to strengthen our relationships with financially strong suppliers who propose competitive solutions which contribute towards the achievement of People's Bank's corporate objectives. As part of this same strategy we are also continually looking to balance relationships and encourage sharing of expertise when needed.

**GRI 204-1**

**Supplier Engagement**

we engage with our suppliers to obtain their feedback and consider this an opportunity to further improve our relationship with our suppliers. Our suppliers can make a written submission directly to any officer, Manager, Senior Manager and Chief Manager in order to lodge a complaint or suggestion. All complaints and suggestions received are reviewed and addressed promptly.

	2018	2017
Total number of suppliers in the registry	383	662
New suppliers added	243	265
Number of suppliers removed	Nil	Nil
Value distributed to suppliers (Rs. Mn) - Local	12,622	10,551
- Foreign	202	617

**GLOBAL PARTNERSHIPS**

Given the size and scale of our operations, we have come to rely on global partnerships for certain aspects of our business. In this context we maintain long-standing partnerships with a large number of correspondent banks and franchise holders around the world.

	2018	2017	2016
Number of Correspondent Banks	43	46	49
Number of Vostro Agents (banks / Exchange Companies)	73	72	70

	Length of Relationship (Years)				
	<1	1 - 5	5 - 10	10 - 20	>20
Number of Correspondent Banks	-	1	6	7	29
Number of Vostro Agents (banks / Ex-change Companies)	2	7	6	14	44

## GRI 102-13

**INDUSTRY MEMBERSHIPS**

As a leading bank in the country, People's Bank also maintains memberships with industry bodies and specialist associations, which allows us to work collaboratively towards the betterment of the country's banking sector as well as to keep abreast of the latest local and global developments that affect our business. We maintain memberships in the following organizations;

- ◆ Asia Pacific rural & Agriculture Credit Association
- ◆ The Association of Compliance officers of the bank, Sri Lanka
- ◆ The Financial ombudsman Sri Lanka (Guarantee) Ltd
- ◆ Institute of bankers of Sri Lanka
- ◆ The Ceylon Chamber of Commerce
- ◆ Sri Lanka bank's Association (Guarantee) Ltd
- ◆ The Association of banking sector risk Professionals – Sri Lanka
- ◆ Clearing Association of bankers
- ◆ Employers' Federation of Sri Lanka
- ◆ Association of Primary dealers

## SOCIAL AND RELATIONSHIP CAPITAL (INVESTOR)

Investors are the Bank's main source of funds. Therefore keeping our investors happy is vital to the success of People's Bank.

### INVESTOR RETURNS

Economic Value Added (EVA) - EVA indicates the true economic profit of the Bank. Our basic policy is to provide continuous and stable returns to shareholders in the form of higher EVA. We maintain a disciplined capital management strategy to strike the optimal balance between strengthening our capital base and providing steady returns to shareholders. Our key priorities in this regard are to improve capital efficiency by emphasizing growth investments and maintaining a sound financial position that would reinforce the EVA to shareholders. The EVA created during 2018 amounts to Rs. 40.5 Bn.

### ECONOMIC VALUE ADDED STATEMENT

For the year ended December 31,	2018 Rs. '000	2017 Rs. '000	Change %
<b>Invested Equity</b>			
Shareholders' Funds	91,209,925	77,456,726	17.8%
Add: Cumulative Provision for Loan Losses/ Provision for Impairment	68,752,793	61,604,938	11.6%
<b>Total</b>	159,962,718	139,061,664	15.0%
<b>Earnings</b>			
Profit after Taxation	17,094,923	18,249,777	-6.3%
Add: Loan Losses and Provisions/Impairment Provision	7,317,461	2,678,366	173.2%
Less: Loans written off	(160,306)	(104,512)	53.4%
<b>Total</b>	24,252,078	20,823,631	16.5%
Cost of Equity (Based on 12 months Weighted Average Treasury Bill rate + 2% for Risk Premium)	10.9%	10.9%	
Cost of Average Equity	16,296,829	14,115,847	15.5%
Economic Value Added	40,548,907	34,939,478	16.1%

## GRI 201-1

**DIRECT ECONOMIC VALUE GENERATED & DISTRIBUTION**

Economic Value Generated and Distribution provides a basic indication of how the Bank created wealth for stakeholders. The table below shows the Bank's contribution to the Sri Lankan economies in the past five years.

For the year ended December 31,	2014	2015	2016	2017	2018	Growth %
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	2017 Vs 2018
<b>Sources of Income</b>						
Interest	84,479,961	92,485,979	109,970,256	149,184,471	171,134,700	14.7%
Exchange	1,598,506	3,050,646	2,572,743	2,119,499	6,016,099	183.8%
Commission and Fees	3,820,242	3,712,146	3,948,052	5,132,907	6,956,292	35.5%
Capital Gain	1,042,108	305,011	531,921	125,763	162,923	29.5%
Other	5,436,664	4,095,182	5,091,388	4,272,751	1,707,356	-60.0%
<b>Total</b>	<b>96,377,482</b>	<b>103,648,964</b>	<b>122,114,360</b>	<b>160,835,391</b>	<b>185,977,370</b>	<b>15.6%</b>
<b>Utilisation of Income</b>						
To Depositors as Interest	54,362,126	48,731,974	66,845,869	98,718,636	111,034,922	12.5%
To Employees as Emoluments	14,005,555	17,377,025	13,633,514	14,738,069	19,504,835	32.3%
To Providers of Goods & services	7,414,998	7,160,999	8,588,379	11,168,408	12,822,211	14.8%
Net Impairment Loss on Financial Assets	(1,430,440)	3,739,914	1,246,748	1,348,460	7,317,461	442.7%
To Government- Taxes, Special Levy & Dividend	14,125,646	16,834,192	20,515,560	20,522,887	19,814,596	-3.5%
To Community	24,675	39,461	40,269	56,317	42,288	-24.9%
Retained for growth	7,874,923	9,765,398	11,244,022	14,282,614	15,441,057	8.1%
<b>Total</b>	<b>96,377,482</b>	<b>103,648,964</b>	<b>122,114,360</b>	<b>160,835,391</b>	<b>185,977,370</b>	<b>15.6%</b>

Note : Above figures have been derived from the Audited Financial Statements prepared based on the Sri Lanka Accounting Standards (SLFRS / LKAS)

**INVESTOR RELATIONS****Disclosure of Material Information**

We are committed to disclosing corporate information to our investors in full compliance with laws and ethical business practices applicable to our business. Accordingly, we release accurate and timely corporate information regarding our financial performance with all such information posted on the investor relations segment on our corporate website.

The People's Bank annual report, which is published and circulated among all investors provides comprehensive coverage of the Banks' performance for a given financial year. The annual report can also be downloaded from the corporate website.

## SOCIAL AND RELATIONSHIP CAPITAL (COMMUNITY)

From the inception, we have taken our duty towards the community very seriously and looked to project People's Bank as an exemplary community steward. As one of the largest Bank in Sri Lanka, we believe People's Bank has the ability and the capacity to make a significant change in the socioeconomic status of disadvantaged communities across Sri Lanka.

### COMMUNITY INVESTMENT

#### GRI 413-1

##### Direct Community Support

Our community support initiatives over the years have been two-fold; philanthropic efforts offering financial assistance for various social causes as well as larger more focused campaigns to address issues of national importance. Such projects are recommended by our branch staff who through their close interactions with the local communities they serve, are able to identify critical shortcomings within these communities. Projects identified in this manner are escalated to People's Bank's Central CSR Committee for review and approval under three key pillars; Arts and Culture, Education, Health and Other activities. An annual CSR budget is prepared to assign funding for activities to be conducted under each of these pillars. Actual projects undertaken are done so within these approved funding limits.

Category	Description	Amount Rs. '000
Arts and Culture	Main sponsor of the Kandy Esala Maha Perahara, layering sand on Anuradhapura Ruwanweliseya and sponsorship to numerous religious and cultural activities	22,642
Education	Contribution to Kelaniya University construction project, distribution of school books and stationery, sponsorship and donation to underprivileged schools.	15,745
Health and Other Social Activities	Donations to Housing projects, funding "Little Heart" charity projects and other sponsorships	3,901
<b>Total</b>		<b>42,288</b>

#### GRI 203-2

##### Promoting Financial Inclusion

Promoting financial inclusion is part of our key mandate as a state Bank. We leverage on our unparalleled network of touch-points to reach out rural unbanked communities by providing them with access to much needed financial assistance that enables them to sustain and grow their small-scale micro enterprises. People's Bank also holds the distinction of being the first financial institution to open its door in numerous economically disadvantaged regions in the country. The Bank has presence in the Northern and Eastern provinces for more than 56 years, long before the end of the ethnic conflict and subsequent entry of other financial institutions to the region. All employees in these regions are able to communicate in all three languages while relevant marketing information and paperwork is also trilingual.

	All Provinces	Economically Disadvantaged Regions		
		Northern	Eastern	Uva
Number of branches	738	49	61	49
Number of ATMs	716	45	50	50
Number of CDM	238	11	14	13
Number of Kiosk	194	10	11	13
Express Banking Centres	136	10	9	6
Advances (Rs. Mn)	1,334,420	26,058	45,222	33,757
Deposits (Rs. Mn)	1,422,961	50,699	43,710	42,947



People's Bank has come forward as the main sponsor for the historical Kandy Esala Perahera.



People's Bank joined hands with Independent Television Network (ITN) to host the 'Soorya Mangallaya'



People's Bank recently sponsored the 'Environmental campaign at Sri Pada sacred grounds 2018'

## GRI 203-1

**COMMUNITY BASED DEVELOPMENT LENDING**

The SME, Development and Micro finance Unit of People's Bank provides specially designed financial packages to contribute towards generating employment, supporting industry and agricultural sectors. Financial assistance is provided through both Bank funded and in partnership with several NGOs and Government Organisations (through refinance loan schemes).

	As at end December 2018			
	Funded by the Bank		Funded through refinance schemes	
	No. of loans	Outstanding amount (Rs. Mn)	No. of loans	Outstanding amount (Rs. Mn)
Agricultural	9,633	4,497.3	3,602	667.0
Commercial	376	122.1	554	122.3
Consumption	1	0.1	3	0.3
Financial	-	-	8	1.6
Housing & Property Development	2	0.1	8	0.9
Industrial	449	18.8	934	147.0
Other Economic Activities	24,121	3,140.7	2,240	206.6
Services	29	8.4	535	74.8
Tourism	4	2.1	12	7.6
<b>Grand Total</b>	<b>34,615</b>	<b>7,789.6</b>	<b>7,896</b>	<b>1,228.0</b>

**Knowledge Sharing Workshops**

Our knowledge sharing workshops are essentially capacity building efforts that aim to bridge the knowledge gap which is considered as major impediment towards the progress of rural communities.

Programme/ Initiative	Thematic Objective	Description	Region/District	Number of Participants
Women's "Vanitha Vasana" Workshop	Women Empowerment	To raise awareness on Women's safety and protection, family nutrition, financial discipline, attitude and personality development.	All regions	Over 3000
Sisu Udana Grade 5 Scholarship seminar programme with "Sujaya" newspaper	Supporting the national education agenda	Educate students and their parents about Grade 5 scholarship	90 seminars across the Island	Approximately 50,000 student and 25,000 parents
Entrepreneur Glory for SME Customers	Improving Financial Literacy among the rural masses	Educate customers on the areas of banking, Financial Accounting, Financial management, marketing, business strategic and Taxation	Batticaloa Galle	405 customers



Entrepreneur Glory Programme for SME customers in Galle District



Entrepreneur Glory Programme for SME customers in Batticaloa District



## NATURAL CAPITAL

Aligning with our vision to be the market leader in Sri Lanka for financial services, and in keeping with our more than 50-year history in Sri Lanka contributing to quality of life, economic development and implementation of sustainable business practices, we have taken multiple concrete measures to integrate environmental sustainability into our operations. These initiatives include green banking, green buildings and carbon management.

Spearheading the effort is the “People’s Green Pulse” Environmental Sustainability Initiative launched in 2016. It provides the framework which will allow the Bank to achieve its aspirations for a greener future.

- Carbon Emission of our Head Office reduced by **22.62 tCO<sub>2</sub>e**

- Minimize paper waste by introducing **People’s Wave** and

**People’s Wiz Mobile apps**

- Introduced **“Green Team”** and **“Green Loans”**



## CARBON FOOTPRINT

As a state bank, we consider it our duty to uphold the environmental edict stipulated in the country's constitution, making it "The duty of every person and organisation in Sri Lanka to protect nature and conserve its riches."

As part of the 'People's Green Pulse' initiative, an extensive three-year Carbon Management Programme was introduced in 2016 with the objective of measuring, managing and mitigating the Carbon Footprint of our organisational operations. The objective of the programme is to ensure that People's Bank will be certified as a "CarbonConscious Bank" by 2020 by sustainability verification and certification services provider, The Sustainable Future Group.

In partnership with our sustainability solutions provider, The Carbon Consulting Company, GHG assessments were conducted for the People's Bank Head Office, 25 regional head offices and 738 branches and service centres across Ampara, Anuradhapura, Badulla, Batticaloa, Colombo, Galle, Gampaha, Hambantota, Jaffna, Kalutara, Kandy, Kegalle, Kurunegala, Matale, Monaragala, Nuwara Eliya, Polonnaruwa, Puttalam, Ratnapura, Trincomalee and Vavuniya. The data verification was conducted in five regions which included Colombo North, Colombo South, Colombo Outer and Kandy.

GRI 305-1,305-2,305-3,305-4,305-5

The total Carbon Footprint (Scope 1, 2 and 3) for the entire operations of People's Bank is given below:

Reporting Scope	Emission Source	2018 Emission Total (tCO <sub>2</sub> e)
Scope 1-Direct Emissions	On-site Energy	441.24
	Fugitive Emissions	3,087.15
	Bank-Owned Vehicles	1,701.52
<b>Total Scope 1</b>		<b>5,229.91</b>
<b>Total Scope 2-Energy Indirect Emissions</b>	<b>Purchased Electricity</b>	<b>12,318.00</b>
Scope 3-Other Indirect Emissions	Electricity-Transmission & Distribution Losses	1,409.71
	Hired Vehicles	50.39
	Local Third-Party Deliveries	203.80
	Waste Disposal	303.11
	Employee Commuting	2,019.85
	Fuel Allowance	91.05
<b>Total Scope 3</b>		<b>4,082.96</b>
<b>Total Scope 1, 2 and 3 Carbon Footprint for the entire operations of People's Bank</b>		<b>21,631.22</b>

The gross overall emissions of the entire operations of People's Bank is 21,631.22 tCO<sub>2</sub>e. Scope 1, Scope 2 and Scope 3 account for 24.18%, 56.95% and 18.88% of total emissions respectively. The Bank's GHG emission intensity ratio for 2018 (emission per employee per annum) is amounted to 2.67 (tCO<sub>2</sub>e).

The total Carbon Footprint (Scope 1, 2 and 3) for our Head Office for 2017 and 2018 is given below:

Reporting Scope	Emission Source	2017 Emission Total (tCO <sub>2</sub> e)	2018 Emission Total (tCO <sub>2</sub> e)
Scope 1 – Direct Emissions	On-site Energy	65.16	45.96
	Fugitive Emissions	585.54	83.01
	Bank-Owned Vehicles	571.91	437.30
<b>Total Scope 1</b>		<b>1,222.60</b>	<b>566.28</b>
<b>Total Scope 2-Energy Indirect Emissions</b>	<b>Purchased Electricity</b>	<b>1,037.97</b>	<b>1,321.35</b>
Scope 3-Other Indirect Emissions	Electricity-Transmission & Distribution Losses	118.79	151.22
	Waste Disposal	1.31	17.34
	Employee Commuting	8.83	20.90
	Fuel Allowance	104.72	336.03
		10.59	69.09
<b>Total Scope 3</b>		<b>244.23</b>	<b>594.56</b>
<b>Total Scope 1, 2 and 3 Carbon Footprint of People's Bank HQ</b>		<b>2,504.81</b>	<b>2,482.19</b>

## NATURAL CAPITAL

As can be seen from the table, the Carbon Footprint for our Head Office has reduced by 22.62 tCO<sub>2</sub>e (0.9%) compared to 2017 assessment. The main reason for this is the decrease in fugitive emissions (air-conditioner gas refills) in 2018.

In addition to the GHG assessments, The Carbon Consulting Company conducted employee awareness workshops at the Head Office and each Regional Head Offices to educate staff on environmental challenges, the importance of the foot printing initiative and the role the company's employees in its green initiatives.

The GHG assessments will allow the Bank to monitor and reduce its GHG emissions and impact on climate change as such assessments facilitate the formulation of reduction targets and long-term action plans. It also strengthens our green credentials and positions People's Bank as a leader in an increasingly environmentally conscious marketplace.

### WASTE MANAGEMENT

Being a financial institution, our primary waste product is paper. Therefore, in order to minimize the paper waste generated each day, the Bank has in recent times begun focusing on paperless solutions that would reduce/completely eliminate the use of paper. Having first started the e-statement programme in 2016, we have now introduced the People's Wave mobile banking app and People's Wiz for customers who are on boarded digitally. The loan origination process was also digitised in 2018. As a result, our paper consumption has considerably reduced with the digitization initiatives of the Bank. In addition to transitioning to online solutions, we have established recycling points across our branch network. These efforts mark significant steps in our journey to become Sri Lanka's first paperless bank. Other waste management systems have also been implemented, where segregation of waste is conducted based on plastic, paper, and food wastage. These activities have contributed to improve recycling rates and volume reduction by utilizing alternative methods for minimizing waste.

### WATER MANAGEMENT

Through our investment in the Ratnapura and Kandy Small Hydro Power Plant, we were able to contribute towards improving our water management. This run-of-river hydro project uses less water storage compared to other hydroelectric power facilities, while generating renewable energy for the Ceylon Electricity Board grid. The project also provides community benefits and employment for those in the area near the hydro power plants.

### GREEN BUILDINGS AND ENVIRONMENTS

We maintain a strong focus on promoting our Green Building Policy in planning and operations across all our branches. The policy was developed by The Carbon Consulting Company following the GreenSL Rating System of the Sri Lankan Green Building Council. We use internationally recognised standards in planning and operations of all our branches and offices which enables us to manage and mitigate our energy, water and waste effectively. As a bank committed to continue to reduce our environmental impact, we have invested in solar power in branches located in bank owned buildings.

### ENVIRONMENTAL FRIENDLY INITIATIVES BY THE BANK AND STAFF

The Environmental Management Initiative encourages employee involvement by building a "Green Team" and conducting training sessions to educate staff and raise awareness on the environmental responsibility of the business. We also have in place a special concessionary "Green Loan" scheme to enable employees to invest in solar power systems for their homes and purchase electric or hybrid vehicles for their personal use.

### GRI 302-1, 302-3

### ENERGY CONSERVATION AND EFFICIENCY IMPROVEMENTS

Our efforts to consistently make improvements in energy efficiency and implementing better practices for conservation have been fruitful. We have been able to reduce our energy consumption, thus saving energy through certified energy management systems throughout our branches. Total energy consumption of the Head Office building in the year 2018 is recorded as 2,697,192 kWh and the Energy Intensity Ratio of the Head Office (Electricity consumption per employee per annum) is amounted to 2,741 kWh.

### ADOPTION OF ENVIRONMENTAL IMPACTS IN LENDING AND INVESTMENT POLICY

We believe that highlighting the importance of giving due consideration to environmental impacts in our lending and investment policy would result in not just monetary benefits but also lead to long-term advantages by mitigating any negative impacts and encouraging any positive environmental initiatives through such investments. We also evaluate the impact on the environment from our business operations when approving the loan limits.

## CONTRIBUTION TO SDGS

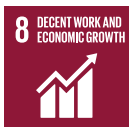
Going beyond the emphasis on financial success, People's Bank has in recent years been increasingly focusing on using its financial expertise to contribute positively towards the country's economy its people and the environment. We believe the key to achieving this is to make our business sustainable in every respect.

Sustainability has thus become an integral component of People's Bank business model, driving bank-wide changes in policies, practices, culture, and mindset. To introduce a more systematic approach to-wards imbuing sustainability as part of our day-to-day business activities, we have adopted the Sustainable Development Goals (SDGs) set forth by the United Nations under its 2030 Agenda for Sustainable Development. Our commitment to the SDGs are illustrated below;

### Bank's Commitment

- ◆ Adoption of globally accepted best practices for sustainable development
- ◆ Collaborating with the government, local authorities, non-governmental organizations and the private sector to carry out joint development initiatives

### ECONOMIC DIMENSION



#### Job Creation

- Fair and equitable remuneration and benefits
- Safe work environment, equal opportunity in employment, Taxes paid to the government
- Indirect employment opportunities through lending activities under the "Enterprise Sri Lanka" initiative

#### Key Highlights for 2018: >>>

##### Employment opportunities provided

Bank's recruitments are made at entry level, mainly management trainees and customer service assistants being recruited on a regular basis. In 2018 the HRD, for spearhead the Bank's digital transformation agenda made a series of recruitments to the Digital Banking environment. Bank has recruited 13 employees during the year 2018

##### Enterprise Sri Lanka Initiative

The Enterprise Sri Lanka initiative is an effort by the Ministry of Finance and Mass Media to promote entrepreneurship in Sri Lanka as part of systematic effort by the Government to support the development of SMEs and Micro enterprises across the country. As a leading state Bank, bank signed up for the initiative, to enable the Commercial Credit Department, the SME Banking Unit, the Development and Micro Finance Department and the Retail Banking Department to promote the scheme.

A special "Enterprise Sri Lanka" desk was established at every branch with Branch Managers and Credit Officers being made aware of loan schemes linked to the Enterprise Sri Lanka initiative.

Details of the loan scheme are as follows:

- |  |   |
|--|---|
| ◆ The Small and Medium scale Enterprises Development Loan Scheme- (SMED)                   | ◆ New People's Fast Loan Scheme                           |
| ◆ "Jaya Isura" Loan Scheme   | ◆ Self Employment Promotion Initiative Phase II (SEPI-II) |
| ◆ Small and Medium- Sized Enterprises Line of Credit Project (SMELoC)                      | ◆ "Kapruka Ayojana" Loan Scheme                           |
| ◆ Commercial Scale Dairy Development Loan Scheme (CSDDLs)                                  | ◆ "Kapruka Nipayum Diriya" Loan Scheme                    |
| ◆ "E-Friends II - Revolving Fund Loan Scheme" (Environmentally Friendly Solutions Fund II) | ◆ "ATHWELA" Loan Scheme                                   |
| ◆ "Ran Aswenna" Loan Scheme  | ◆ Environment Friendly "Green Loan"                       |
| ◆ "Diri Saviya" Loan Scheme  | ◆ "Riya Shakthi"  |
| ◆ "Govi Navoda" Loan Scheme  | ◆ "Rivi Bala Savi"  |
| ◆ "Saubhagya" Loan Scheme  | ◆ "Madya Aruna"   |
|  | ◆ "Sonduru Piyasa"  |
|  | ◆ "Arabuma"   |

## CONTRIBUTION TO SDGS



Investments in industry-leading digital infrastructure to raise the standards of the local banking industry on par with regional peers  
Lending to SOE's and thereby contributing to the development of national infrastructure

### Key Highlights for 2018; >>>

#### Growing the network of Self Banking Service (SBUs)

Self-Banking Service of the Bank has reported a significant progress, overcoming the modern technological challenges in the banking and financial sector. Introduced island wide and fully functional round the clock, the new Self Banking Service has won the hearts of not only our customers, but even those high profile clients (local and foreign alike) of our competitors as well. As a result, a significantly high number of new customers are now crossing over to us, along with certain valuable customers who had previously limited their business relationships with the Bank. Also, with the increase in popularity of Self Banking Units (SBUs), the counter rush has been greatly reduced, creating a favorable environment within the branch network to deliver an efficient customer service.

ATM Based Transactions	CDM Based Transactions	KIOSK Based Transactions
<ul style="list-style-type: none"> <li>◆ <b>Balance Inquiry</b> with card (for people's bank customers as well as for customers of other banks)</li> <li>◆ <b>Cash Withdrawal</b> with card (for People's Bank customers as well as for customers of other banks)</li> <li>◆ <b>Cash Withdrawal</b> without card (for People's Bank customers only)</li> <li>◆ <b>Mini Statements</b> with card (for People's Bank customers only)</li> <li>◆ <b>Cash Advances</b> with People's Bank Credit Card (for People's Bank customers only)</li> <li>◆ <b>Mobile Cash Withdrawals*</b> without card (for People's Bank customers as well as for customers of other banks)</li> </ul>	<ul style="list-style-type: none"> <li>◆ <b>Balance Inquiry</b> with card (for people's bank customers only)</li> <li>◆ <b>Cash Deposit</b> with card (for People's Bank customers only)</li> <li>◆ <b>up to Rs. 1 million –</b> (for People's Bank customers only)</li> <li>◆ <b>Cash Deposit</b> without card up to Rs.200,000 –(for People's Bank customers only)</li> <li>◆ <b>Mini Statements</b> with card (for People's Bank customers only)</li> <li>◆ <b>Bill Payments</b> without card (for People's Bank customers as well as for customers of other banks)</li> <li>◆ <b>Mobile Reload</b> without card (for People's Bank customers as well as for customers of other banks)</li> </ul>	<p>With card (for People's Bank customers only)</p> <ul style="list-style-type: none"> <li>◆ <b>Balance Inquiry</b></li> <li>◆ <b>Fund Transfers between one's own accounts</b></li> <li>◆ <b>Fund Transfers between own account and other People's Bank accounts</b></li> <li>◆ <b>Mini Statements</b></li> <li>◆ <b>Mobile Reload</b></li> <li>◆ <b>Mobile Cash Transfer*</b></li> <li>◆ <b>Bill Payments</b></li> </ul> <p>*It should be specially noted, that any Savings or Current Account Holder in People's Bank is able to send money through SBUs to anyone who has a mobile phone in his / her hand. (Maximum Rs. 10,000)</p>

#### People's Wave Mobile Banking App

The Bank's mobile app "People's Wave" has been successfully made available through Google Play Store and Apple App Store for all our customers as well as the general public.

Equipped with a range of modern and sophisticated banking features, "People's Wave" greatly enhances the level of customer convenience. It also helps lower the counter rush in Branches and Service Centers and thereby leading to a more efficient and productive branch model.

#### 'Cash Deposit Machine for School Banking' Launched on World Children's Day 2018

To commemorate World Children's Day on 1st of October, Bank launched its first ever "Cash Deposit Machine for School Banking" - at Ananda College, Colombo 10. Designed to accept currency notes as well as coins from school children with minimum involvement of our Staff, the "Cash De-posit Machine for School Banking" also does not require any deposit forms to be filled making it easier for children to deposit money to their minor savings accounts. This highly sophisticated machine is equipped with fingerprint identification, interactive touch screen, surveillance camera and separate slots for inserting of coins and notes.

**ISO 27001: 2013 Certification for Information Security Management**

Bank successfully obtained the ISO 27001:2013 certification for its Information Security Management becoming the first and only state bank to obtain the standard in 2018. This latest version of the International Standard for Information Security Management, the ISO/IEC 27001:2013 provides a framework and a systematic approach to implement effective controls that help to maintain the confidentiality, integrity and availability of customer data. Strengthened with ISO/IEC 27001:2013, Bank is enabled to drive its business with efficiency, innovation and technological advancement as part of its progressive strategy. This is achieved by creating a highly secured technological environment comprising of advanced electronic delivery channels, with features and services that are available in today's fast growing world.

**Investment in a new Security Operating System (SOC)**

Bank invested in a dedicated Security Operating Centre (SOC) which would greatly strengthen the Bank's capacity to safeguard customer privacy through advanced industry-based architecture and protocols.

**Contribution to National Infrastructure Development**

Significant amount was disbursed for state-sponsored road development, electrification and irrigation projects.

**SOCIAL DIMENSION**



Promoting financial inclusion among the rural unbanked  
 Supplier Development  
 Local Hiring  
 Supplier Development

**Key Highlights for 2018; >>>**

Bank's branch network is geographically spread over the entire country where bank has its branches, SBUs and express banking centers situated mainly in economically disadvantaged regions like Northern, Eastern and Uva. Bank has 49 branches in Northern regions 61 in Eastern region and 49 in Uva region. ATMs 45 in Northern, 50 in Eastern and 50 in Uva. 11 CDMs in Northern, 14 in Eastern and 13 in Uva. 10, 11 and 13 Kiosks in Northern, Eastern and Uva regions respectively. 10 express banking centers in Northern, 9 in Eastern and 6 in Uva.



Medical benefits for employee families  
 Wellness and work-life balance programs for employees

The benefits given to permanent employees include medical benefits, death gratuity, personal accident insurance scheme, disability and invalidity cover and maternity leave. Medical benefits also covers the family members of the employee.

Bank's wellbeing programmes are aimed at helping employees distress and supporting a healthy work-life balance. Bank has a range of initiatives to support the physical wellbeing of the employees, including a fully equipped gym, regular yoga and other fitness-related activities organized by the Bank. Emotional support is also offered by way of stress management training, while all employees can participate in Bank's annual sports meet and other social events organized by the Bank.



Supporting children's access to education  
 Supporting employee education  
 Knowledge sharing workshops  
 Partnerships with educational institutions for continuing education of employees and the community

**Key Highlights for 2018; >>>**

Sisu Udana Grade 5 Scholarship seminar program with "Sujaya" newspaper to educate students and their parents Grade 5 scholarship exam Employees are given an education loan at concessionary rates for their post graduate studies.

## CONTRIBUTION TO SDGS

5

GENDER  
EQUALITY



Promoting women in the workplace  
Zero-tolerance policy towards all forms of violence and sexual harassment.  
Ensuring all workers - women and men have an equal voice in workplace, including grievance mechanisms

### Key Highlights for 2018; >>>

Female representation in the Bank has increased over the years. In 2017 it was 61.2% of the total employees and in 2018 it was 62.0% which reflect the women prominence in the Bank.

Female representation in Corporate Management has also increased over years from 3 to 6 from 2017 to 2018.

7

AFFORDABLE AND  
CLEAN ENERGY



Provision of concessionary loans to encourage employees to invest in solar energy

10

REDUCED  
INEQUALITIES



Equal remuneration for men and women.  
Equal opportunities for all employees to receive training and career development  
Promoting financial inclusion among the rural unbanked  
Supporting children's access to education  
Supporting Women's Empowerment

### Key Highlights for 2018; >>>

The ratio of basic salary and remuneration of women to men by employment is 1:1 in year 2018. Bank has spent Rs 74 Mn on employee training in year 2018 where the number of training hours counts to 161,378 hours while average training hours per employee was 19.9 hours in 2018. 41 employees were sent for 18 foreign training programs in last year.

### Following programs / initiatives were taken for different segments;

Women's "Vanitha Vasana" Workshop to raise awareness on Women's safety and protection, family nutrition, financial discipline, attitude and personality development.

Entrepreneur Glory for SME Customers to educate customers on the areas of Banking, Financial Accounting, Financial Management, Marketing, Business Strategic and Taxation

11

SUSTAINABLE CITIES  
AND COMMUNITIES



Local sourcing  
Promoting Financial Inclusion among rural unbanked communities  
Supporting Women's Empowerment

Bank has the "Vanitha Vasana" deposits under which it carries out campaigns to empower women. There are two types of investments namely "People's Smart Ladies" and "Vanitha Vasana Money Planner" via which the Bank encourage women to increase their savings while improving their life style.



No to child labour, forced labour, modern slavery and human trafficking in operations  
 No anti-competitive behaviour  
 Zero tolerance for bribery and corruption  
 Support for human rights, including Freedom of expression  
 Continuous and ongoing stakeholder engagement

**Key Highlights for 2018; >>>**

Anti-bribery & Anti Corruption (AB & AC) Policy of the Bank was approved by the Board of Directors of People's Bank. The AB & AC Policy sets out the guidelines for the Bank to conduct its activities in an ethical and appropriate manner complying with applicable laws, rules and regulations.

All employees are strongly encouraged to speak with their immediate supervisor to resolve any concerns. For issues that cannot be resolved in this manner, employees have access to Bank's formal grievance handling procedures. The CEO/General Manager who has the authority over the Redress Committee appoints a panel consisting of corporate management members to provide further clarification to the grievances and provide remedial measures to redress the grievances raised by employees. All grievance committee proceedings are handled transparently and with due respect to the employee seeking redress.

Bank's open-door policy is meant to encourage employees to freely communicate with their superiors. Several formal channels are also available for this purpose including; the weekly team briefings, monthly branch meetings, regional conferences etc

**ENVIRONMENTAL DIMENSION**



Being the service brand and banking service provider and as a banker to the nation it is the responsibility of our bank to assist the society to step into the Green World under the Green Environmental Concept through Green Business Initiatives.  
 Ongoing efforts under the "People's Green Pulse" environmental sustainability initiative is aimed at ensuring that the Bank is declared a "Carbon Conscious Bank" by 2020,

The gross overall emissions of the entire operations of the Bank is 21,631.22 tCO2e. Scope 1, Scope 2 and Scope 3 account for 24.18%, 56.95% and 18.88% of total emissions respectively.

# LOANS IN A FLASH

Our retail loan originating system will provide the fastest service in securing loans for your diverse needs.







## DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Board of Directors of the Bank has responsibility for ensuring that the Bank keeps proper books of account of all the transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit/loss for the year.

Accordingly, the Board of Directors oversees the Managements' responsibilities for financial reporting through their regular meeting reviews and the Audit Committee. The Audit Committee Report is given on page 71.

The Board of Directors has instituted effective and comprehensive system of Internal Control. This comprises Internal Checks, Internal Audit and the whole system of financial and other controls required to carry on business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records. Directors consider that they adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgement and estimates in preparing the Financial Statements for the year 2018 exhibited on pages 147 to 264.

The Board of Directors ensure the compliance with prudential requirements, regulations, laws and internal controls, and measures have been taken to rectify any material non-compliances.

The Bank's Financial Statements for the year ended 31st December 2018 prepared and presented in this report are in conformity with the requirements of Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988, the amendments thereto. The Financial Statements reflect a true and fair view of the state of affairs of the Bank and the Group as at that date as per the External Auditors' Report.



**Rohan Pahirage**

*SDGM – Human Resource & Legal / Secretary to the Board of Directors*

28th March 2018

## AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS



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## தேசிய கணக்காய்வு அலுவலகம்

### NATIONAL AUDIT OFFICE



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உமது இல. }

දිනය  
திகதி } 28 March 2019

### REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS AND OTHER LEGAL AND REGULATORY REQUIREMENTS OF THE PEOPLE'S BANK AND ITS SUBSIDIARIES FOR THE YEAR ENDED 31 DECEMBER 2018 IN TERMS OF SECTION 12 OF THE NATIONAL AUDIT ACT, NO. 19 OF 2018

#### 1. FINANCIAL STATEMENTS

##### 1.1 Opinion

The audit of the financial statements of the People's Bank ("Bank") and the Consolidated Financial Statements of the Bank and its Subsidiaries ("Group") for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and income statement, 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, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the democratic socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

##### 1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

##### 1.3 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 determine 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 Group'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 group or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16 91) of the National Audit Act No. 19 of 2018, the Group is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Group.

##### 1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards 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 Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- 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 my 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 he override of internal control.

## AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS



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தேசிய கணக்காய்வு அலுவலகம்  
NATIONAL AUDIT OFFICE

- ◆ 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 Group's internal control.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- ◆ Conclude on the appropriateness of the 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 Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ◆ 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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

### 2. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- ◆ I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12 (1) of the National Audit Act, No. 19 of 2018.
- ◆ The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

- ◆ The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- ◆ to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, Nod 19 of 2018;
- ◆ to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018;
- ◆ to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No 19 of 2018;
- ◆ to state that the resources of the Bank had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

**H.M. Gamini Wijesinghe**  
*Auditor General*

## INCOME STATEMENT

For the Year ended 31st December	Note	BANK			GROUP		
		2018 Rs.'000	2017 Rs.'000	Change %	2018 Rs.'000	2017 Rs.'000	Change %
<b>Gross Income</b>	7	<b>185,977,370</b>	160,835,391	15.6	<b>219,357,457</b>	188,853,787	16.2
Interest Income		<b>171,134,700</b>	149,184,471	14.7	<b>200,310,780</b>	173,820,509	15.2
Interest Expenses		<b>(111,034,922)</b>	(98,718,636)	12.5	<b>(124,457,189)</b>	(111,074,981)	12.0
<b>Net Interest Income</b>	8	<b>60,099,778</b>	50,465,835	19.1	<b>75,853,591</b>	62,745,528	20.9
Fee and Commission Income		<b>6,956,292</b>	5,132,907	35.5	<b>7,813,893</b>	5,769,244	35.4
Fee and Commission Expense		<b>(363,442)</b>	(260,773)	39.4	<b>(363,442)</b>	(260,773)	39.4
<b>Net Fee and Commission Income</b>	9	<b>6,592,850</b>	4,872,134	35.3	<b>7,450,451</b>	5,508,471	35.3
Net Gain/(Loss) from Trading	10	<b>4,555,089</b>	2,782,102	63.7	<b>4,467,581</b>	2,815,322	58.7
Other Operating Income (Net)	11	<b>3,331,289</b>	3,735,911	-10.8	<b>6,765,203</b>	6,448,712	4.9
<b>Total Operating Income</b>		<b>74,579,006</b>	61,855,982	20.6	<b>94,536,826</b>	77,518,033	22.0
Impairment Charge	12	<b>(7,317,461)</b>	(1,348,460)	442.7	<b>(8,821,027)</b>	(3,049,861)	189.2
<b>Net Operating Income</b>		<b>67,261,545</b>	60,507,522	11.2	<b>85,715,799</b>	74,468,172	15.1
Personnel Expenses	13	<b>(19,904,835)</b>	(15,227,458)	30.7	<b>(23,882,867)</b>	(18,440,828)	29.5
Other Expenses	14	<b>(15,404,948)</b>	(13,094,394)	17.6	<b>(21,230,488)</b>	(18,768,628)	13.1
<b>Operating Profit Before Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Repayment Levy (DRL)</b>		<b>31,951,762</b>	32,185,670	-0.7	<b>40,602,444</b>	37,258,716	9.0
Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Repayment Levy (DRL) on Financial Services		<b>(7,545,272)</b>	(6,272,565)	20.3	<b>(9,440,846)</b>	(7,390,285)	27.7
<b>Profit Before Tax</b>		<b>24,406,490</b>	25,913,105	-5.8	<b>31,161,598</b>	29,868,431	4.3
Income Tax Expenses	15	<b>(7,311,567)</b>	(7,663,329)	-4.6	<b>(9,669,455)</b>	(9,357,510)	3.3
<b>Profit for the Year</b>		<b>17,094,923</b>	18,249,776	-6.3	<b>21,492,143</b>	20,510,921	4.8
Profit Attributable to :							
Equity Holders of the Bank		<b>17,094,923</b>	18,249,776	-6.3	<b>19,977,862</b>	19,295,734	3.5
Non-Controlling Interest		-	-	-	<b>1,514,281</b>	1,215,187	24.6
		<b>17,094,923</b>	18,249,776	-6.3	<b>21,492,143</b>	20,510,921	4.8
<b>Earnings Per Share on Profit</b>	16						
Basic Earnings per Ordinary Share [Rs.]	16.1	<b>17,095</b>	18,250	-6.3	<b>19,978</b>	19,296	3.5
Diluted Earnings per Ordinary Share [Rs.]	16.2	<b>70</b>	75	-6.3	<b>82</b>	79	3.5

The Notes appearing on pages 155 to 264 form an integral part of these Financial Statements.

## STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31st December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
<b>Profit for the Year</b>	<b>17,094,923</b>	18,249,776	<b>21,492,143</b>	20,510,921
<b>Other Comprehensive Income / (Expense)</b>				
<b>Other comprehensive income that will not be reclassified to the income statement</b>				
Net Gains/( Losses) on equity instruments at fair value through OCI	17,560	-	17,560	-
Net Actuarial Gains and Losses on Defined Benefit Plans	721,465	(3,222,626)	696,602	(3,246,834)
Deferred Tax Effect on Defined Benefit Plans	(202,010)	(41,067)	(195,646)	(35,060)
Gains on Revaluation of Land and Buildings	-	6,568,522	50,000	7,749,055
Deferred Tax Effect on Revaluation of Land and Building	-	(3,366,405)	(10,000)	(3,732,372)
Deferred Tax effect on Revaluation Surplus in Previous years	-	-	(84,563)	-
	<b>537,015</b>	(61,576)	<b>473,953</b>	734,789
<b>Other comprehensive income that will be reclassified to the income statement</b>				
Net Gains/( Losses) on Re-Measuring Available-for-Sale Financial Assets	-	(177,930)	-	(175,331)
Reversal of AFS reserve on disposal of AFS Investment	-	17,289	-	17,289
Net Gains/( Losses) on debt instruments at fair value through OCI	(2,154)	-	(2,154)	-
Gains and Losses on Derivative Financial Assets	-	-	-	(15,715)
Net Gains/(Losses) on translating the financial statements of foreign operation	-	-	372,005	-
	<b>(2,154)</b>	(160,641)	<b>369,851</b>	(173,757)
<b>Other Comprehensive Income for the Period, Net of Taxes</b>	<b>534,861</b>	(222,217)	<b>843,804</b>	561,032
<b>Total Comprehensive Income for the Period</b>	<b>17,629,784</b>	18,027,559	<b>22,335,947</b>	21,071,953
<b>Attributable to :</b>				
Equity Holders of the Bank	17,629,784	18,027,559	20,744,446	19,788,396
Non-Controlling Interest	-	-	1,591,501	1,283,557
	<b>17,629,784</b>	18,027,559	<b>22,335,947</b>	21,071,953

The Notes appearing on pages 155 to 264 form an integral part of these Financial Statements.

## STATEMENT OF FINANCIAL POSITION

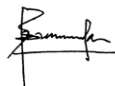
As at 31st December	Note	BANK			GROUP		
		2018 Rs.'000	2017 Rs.'000	Change %	2018 Rs.'000	2017 Rs.'000	Change %
<b>Assets</b>							
Cash and Cash Equivalents	18	57,879,933	68,958,012	-16.1	58,835,090	69,675,003	-15.6
Balances with Central Bank of Sri Lanka	19	51,615,796	65,689,278	-21.4	51,615,796	65,689,278	-21.4
Placements with Banks	20	4,350,726	13,458,639	-67.7	9,096,252	18,944,087	-52.0
Derivative Financial Instruments	21	1,163,384	334,230	248.1	1,163,384	334,230	248.1
Other Financial Assets Held-for-Trading	22	-	53,042,557	-	-	53,354,989	-
Financial Assets - At Fair Value through Profit or Loss	23	54,052,435	-	-	54,300,238	-	-
<b>Financial Assets - At Amortised Cost</b>							
Loans and Receivables to Banks	24	32,167,421	86,097,515	-62.6	32,551,657	86,436,113	-62.3
Loans and Receivables to Other Customers	25	1,265,667,467	1,012,642,714	25.0	1,415,927,536	1,143,766,774	23.8
Debt instruments measured at amortised cost	26	201,650,435	-	-	209,696,173	-	-
Financial Investments - Held-to-Maturity	27	-	112,351,039	-	-	117,137,814	-
<b>Financial Assets - At Fair Value through Other Comprehensive Income [ OCI ]</b>							
Equity instruments at fair value through OCI	28	1,179,922	-	-	1,179,956	-	-
Debt instruments at fair value through OCI	29	4,731,261	-	-	4,756,298	-	-
Financial Investments - Available-for-Sale	30	-	3,415,344	-	-	4,483,905	-
Investments in Subsidiaries	31	1,027,542	1,325,766	-22.5	-	-	-
Goodwill and Intangible Assets	32	439,517	225,058	95.3	869,473	679,663	27.9
Property, Plant and Equipment	33	26,259,745	25,047,501	4.8	35,434,318	33,757,975	5.0
Investment Properties	34	1,264,752	1,222,299	3.5	175,795	177,501	-1.0
Prepaid Leases	35	461,043	483,886	-4.7	545,874	483,886	12.8
Other Assets	36	30,791,610	22,805,270	35.0	32,392,393	24,157,374	34.1
<b>Total Assets</b>		<b>1,734,702,989</b>	<b>1,467,099,108</b>	<b>18.2</b>	<b>1,908,540,233</b>	<b>1,619,078,592</b>	<b>17.9</b>
<b>Liabilities</b>							
Due to Banks	37	138,031,420	80,676,350	71.1	172,247,861	100,628,552	71.2
Derivative Financial Instruments	21	2,512,205	273,975	816.9	2,512,205	273,975	816.9
Due to Other Customers	38	1,422,961,240	1,244,002,768	14.4	1,495,326,489	1,305,625,750	14.5
Other Borrowings	39	35,575,554	24,380,962	45.9	35,082,488	33,634,482	4.3
Current Tax Liabilities		4,004,218	4,064,907	-1.5	5,075,102	4,367,318	16.2
Net Deferred Tax Liabilities	40	3,954,834	4,455,617	-11.2	7,347,484	7,277,032	1.0
Other Liabilities	41	23,919,689	19,256,075	24.2	34,350,629	28,380,411	21.0
Subordinated Term Debts	42	12,533,904	12,531,728	0.0	33,084,526	32,447,923	2.0
<b>Total Liabilities</b>		<b>1,643,493,064</b>	<b>1,389,642,382</b>	<b>18.3</b>	<b>1,785,026,784</b>	<b>1,512,635,443</b>	<b>18.0</b>
<b>Equity</b>							
Stated Capital/Assigned Capital	43	12,201,998	12,201,998	-	12,201,998	12,201,998	-
Statutory Reserve Fund	44	6,669,490	5,814,744	14.7	6,669,490	5,814,744	14.7
Other Reserves	45	26,008,948	25,117,785	3.5	28,027,230	26,913,806	4.1
Retained Earnings	46	46,329,489	34,322,199	35.0	66,494,499	52,191,314	27.4
<b>Total Shareholders' Equity</b>		<b>91,209,925</b>	<b>77,456,726</b>	<b>17.8</b>	<b>113,393,217</b>	<b>97,121,862</b>	<b>16.8</b>
Non-Controlling Interest		-	-	-	10,120,232	9,321,287	8.6
<b>Total Equity</b>		<b>91,209,925</b>	<b>77,456,726</b>	<b>17.8</b>	<b>123,513,449</b>	<b>106,443,149</b>	<b>16.0</b>
<b>Total Equity and Liabilities</b>		<b>1,734,702,989</b>	<b>1,467,099,108</b>	<b>18.2</b>	<b>1,908,540,233</b>	<b>1,619,078,592</b>	<b>17.9</b>
<b>Contingent Liabilities and Commitments</b>	47	<b>402,761,963</b>	<b>303,344,150</b>	<b>32.8</b>	<b>409,575,397</b>	<b>304,101,876</b>	<b>34.7</b>

The Notes appearing on pages 155 to 264 form an integral part of these Financial Statements

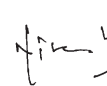
The Board of Directors is responsible for these Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf.



**Azzam A. Ahamat**  
Head of Finance  
Colombo



**N.Vasantha Kumar**  
Chief Executive Officer / General Manager



**Nissanka Nanayakkara**  
Chairman

28th March 2019

## STATEMENT OF CHANGES IN EQUITY – BANK

	STATED CAPITAL/ ASSIGNED CAPITAL			
	Ordinary Shares Rs.'000	Assigned Capital Rs.'000	Statutory Reserve Fund Rs.'000	Revaluation Reserve Rs.'000
<b>Balance as at 01.01.2017</b>	49,998	7,152,000	4,902,255	10,843,204
Profit for the year	-	-	-	-
<b>Other comprehensive income</b>				
Changes in Fair Value in AFS Investments	-	-	-	-
Reversal of AFS reserve on disposal of AFS Investment	-	-	-	-
Revaluation Surplus of Land and Building	-	-	-	6,568,522
Deferred tax effect on Revaluation Surplus	-	-	-	(3,366,405)
Net Defined Benefit obligation	-	-	-	-
Deferred tax effect on defined benefit plans	-	-	-	-
<b>Total Other Comprehensive Income/(Expense)</b>	-	-	-	3,202,117
<b>Total Comprehensive Income/(Expense)</b>	-	-	-	3,202,117
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>				
Increase of assigned Capital	-	5,000,000	-	-
Transfer to Reserve during the Year	-	-	912,489	-
Transfers From Retained Earnings during the year	-	-	-	6,590
Special levy to Treasury/ Dividend	-	-	-	-
<b>Total Transactions with Equity Holders</b>	-	5,000,000	912,489	6,590
Balance as at 31.12.2017	49,998	12,152,000	5,814,744	14,051,911
Impact of adopting SLFRS 9 as at 1 January 2018( Note 6.2 )				
<b>Restated opening balance under SLFRS 9 as at 01.01.2018</b>	49,998	12,152,000	5,814,744	14,051,911
Profit for the Year	-	-	-	-
<b>Other comprehensive income</b>				
Net Gains/( Losses) on equity instruments at fair value through OCI	-	-	-	-
Net Gains/( Losses) on debt instruments at fair value through OCI	-	-	-	-
Net Actuarial Gains and Losses on Defined Benefit Plans	-	-	-	-
Deferred tax effect of net actuarial Gains and Losses on defined benefit plans	-	-	-	-
<b>Total Other Comprehensive Income/(Expense)</b>	-	-	-	-
<b>Total Comprehensive Income/(Expense)</b>	-	-	-	-
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>				
Transfer to Reserve during the year ( Note 44) & ( Note 45.4)	-	-	854,746	-
Special levy to Treasury/ Dividend (Note 45.7)	-	-	-	-
<b>Total Transactions with Equity Holders</b>	-	-	854,746	-
<b>Balance as at 31. 12. 2018</b>	49,998	12,152,000	6,669,490	14,051,911



## RESERVES

Other Reserves Rs.'000	Available For Sale Reserve Rs.'000	Financial assets at FVOCI Reserve Rs.'000	Retained Earnings Rs.'000	Total Rs.'000
10,078,873	273,778	-	26,348,748	59,648,856
-	-	-	18,249,777	18,249,777
-	(177,930)	-	-	(177,930)
-	17,289	-	-	17,289
-	-	-	-	6,568,522
-	-	-	-	(3,366,405)
-	-	-	(3,222,626)	(3,222,626)
-	-	-	(41,067)	(41,067)
-	(160,641)	-	(3,263,693)	(222,217)
-	(160,641)	-	14,986,084	18,027,560
-	-	-	-	5,000,000
873,864	-	-	(1,786,353)	-
-	-	-	(6,590)	-
-	-	-	(5,219,690)	(5,219,690)
873,864	-	-	(7,012,633)	(219,690)
10,952,737	113,137	-	34,322,199	77,456,726
-	(113,137)	115,030	(458,787)	(456,894)
10,952,737	-	115,030	33,863,412	76,999,832
-	-	-	17,094,923	17,094,923
-	-	-	-	-
-	-	17,560	-	17,560
-	-	(2,154)	-	(2,154)
-	-	-	721,465	721,465
-	-	-	(202,010)	(202,010)
-	-	15,406	519,455	534,861
-	-	15,406	17,614,378	17,629,784
873,864	-	-	(1,728,611)	-
-	-	-	(3,419,690)	(3,419,690)
873,864	-	-	(5,148,301)	(3,419,690)
11,826,601	-	130,436	46,329,489	91,209,925

## STATEMENT OF CHANGES IN EQUITY – GROUP

	STATED CAPITAL/ ASSIGNED CAPITAL			
	Ordinary Shares Rs.'000	Assigned Capital Rs.'000	Statutory Reserve Fund Rs.'000	Revaluation Reserve Rs.'000
<b>Balance as at 01.01.2017</b>	49,998	7,152,000	4,902,255	11,883,155
Profit for the Year	-	-	-	-
<b>Other comprehensive income</b>				
Changes in Fair Value in AFS Investments	-	-	-	-
Reversal of AFS reserve on disposal of AFS Investment	-	-	-	-
Net Defined Benefit obligation	-	-	-	-
Revaluation Surplus of Land and Building	-	-	-	7,582,372
Deferred tax effect on Revaluation Surplus	-	-	-	(3,640,880)
Gains and losses on derivative financial Assets	-	-	-	-
Deferred tax effect on defined benefit plans	-	-	-	-
<b>Total Other Comprehensive Income/(Expense)</b>	-	-	-	3,941,492
<b>Total Comprehensive Income/(Expense)</b>	-	-	-	3,941,492
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>				
Increase of assigned Capital	-	5,000,000	-	-
Transfer to Reserve during the period	-	-	912,489	-
Transfers From Retained Earnings during the year	-	-	-	6,590
Special levy to Treasury/ Dividend	-	-	-	-
Movement Due to changes in ownership	-	-	-	-
Dividends Paid	-	-	-	-
<b>Total Transactions with Equity Holders</b>	-	5,000,000	912,489	6,590
<b>Balance as at 31. 12. 2017</b>	49,998	12,152,000	5,814,744	15,831,237
Impact of adopting SLFRS 9 as at 1 January 2018( Note 6.5 )				
<b>Restated opening balance under SLFRS 9 as at 01. 01. 2018</b>	49,998	12,152,000	5,814,744	15,831,237
Profit for the Year	-	-	-	-
<b>Other comprehensive income</b>				
Net Gains/( Losses) on equity instruments at fair value through OCI	-	-	-	-
Net Gains/( Losses) on debt instruments at fair value through OCI	-	-	-	-
Net Gains/(Losses) on translating the financial statements of foreign operation	-	-	-	-
Net Actuarial Gains and Losses on Defined Benefit Plans	-	-	-	-
Deferred tax effect of net actuarial Gains and Losses on defined benefit plans	-	-	-	-
Revaluation Surplus of Land and Building	-	-	-	37,500
Deferred Tax effect on Revaluation Surplus	-	-	-	(7,500)
Deferred Tax effect on Revaluation Surplus in Previous years	-	-	-	(63,422)
<b>Total Other Comprehensive Income/(Expense)</b>	-	-	-	(33,422)
<b>Total Comprehensive Income/(Expense)</b>	-	-	-	(33,422)
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>				
Transfer to Reserve during the period ( Note 44) & ( Note 45.4)	-	-	854,746	-
Special levy to Treasury/ Dividend (Note 45.7)	-	-	-	-
Dividends Paid	-	-	-	-
<b>Total Transactions with Equity Holders</b>	-	-	854,746	-
<b>Balance as at 31. 12. 2018</b>	49,998	12,152,000	6,669,490	15,797,815

## RESERVES

Other Reserves Rs.'000	Available For Sale Reserve Rs.'000	Financial assets at FVOCI Reserve Rs.'000	Cash Flow Hedge Reserve Rs.'000	Retained Earnings Rs.'000	Total Rs.'000	Non Controlling Interest Rs.'000	Total Equity Rs.'000
10,078,873	296,180	-	11,787	43,185,534	77,559,782	7,631,326	85,191,108
-	-	-	-	19,295,734	19,295,734	1,215,187	20,510,921
-	(177,011)	-	-	-	(177,011)	1,680	(175,331)
-	17,289	-	-	-	17,289	-	17,289
-	-	-	-	(3,240,752)	(3,240,752)	(6,082)	(3,246,834)
-	-	-	-	-	7,582,372	166,683	7,749,055
-	-	-	-	-	(3,640,880)	(91,492)	(3,732,372)
-	-	-	(11,787)	-	(11,787)	(3,928)	(15,715)
-	-	-	-	(36,570)	(36,570)	1,510	(35,060)
-	(159,722)	-	(11,787)	(3,277,322)	492,661	68,371	561,032
-	(159,722)	-	(11,787)	16,018,412	19,788,395	1,283,558	21,071,953
-	-	-	-	-	5,000,000	-	5,000,000
873,864	-	-	-	(1,786,353)	-	-	-
-	-	-	-	(6,590)	-	-	-
-	-	-	-	(5,219,690)	(5,219,690)	-	(5,219,690)
(6,626)	-	-	-	-	(6,626)	987,624	980,998
-	-	-	-	-	-	(581,222)	(581,222)
867,238	-	-	-	(7,012,633)	(226,316)	406,403	180,086
10,946,111	136,458	-	-	52,191,314	97,121,862	9,321,287	106,443,149
-	(136,458)	115,030	-	(1,031,973)	(1,053,401)	(198,836)	(1,252,237)
10,946,111	-	115,030	-	51,159,341	96,068,461	9,122,451	105,190,912
-	-	-	-	19,977,862	19,977,862	1,514,281	21,492,143
-	-	17,560	-	-	17,560	-	17,560
-	-	(2,154)	-	-	(2,154)	-	(2,154)
279,004	-	-	-	-	279,004	93,001	372,005
-	-	-	-	702,840	702,840	(6,238)	696,602
-	-	-	-	(197,243)	(197,243)	1,597	(195,646)
-	-	-	-	-	37,500	12,500	50,000
-	-	-	-	-	(7,500)	(2,500)	(10,000)
-	-	-	-	-	(63,422)	(21,141)	(84,563)
279,004	-	15,406	-	505,597	766,585	77,219	843,804
279,004	-	15,406	-	20,483,459	20,744,447	1,591,500	22,335,947
-	-	-	-	-	-	-	-
873,864	-	-	-	(1,728,611)	-	-	-
-	-	-	-	(3,419,690)	(3,419,690)	-	(3,419,690)
-	-	-	-	-	-	(593,719)	(593,719)
873,864	-	-	-	(5,148,301)	(3,419,690)	(593,719)	(4,013,409)
12,098,979	-	130,436	-	66,494,499	113,393,217	10,120,232	123,513,449

## STATEMENT OF CASH FLOWS

For the Year ended 31st December	Note	BANK		GROUP	
		2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
<b>Cash flows from operating activities</b>					
Profit before tax		24,406,490	25,913,105	31,161,598	29,868,431
Adjustment for					
Non-Cash items included in Profits Before Tax	52	11,033,110	4,044,519	12,855,135	6,004,394
Changes in Operating Assets	53	(193,146,843)	(137,084,970)	(213,458,425)	(147,647,369)
Changes in Operating Liabilities	54	249,321,384	136,623,690	266,028,450	146,347,373
Dividend Income from Subsidiaries and Others		(1,653,163)	(1,643,111)	(210,112)	(305,136)
Interest expense on Subordinated Debt		1,612,592	1,612,500	3,960,814	4,209,131
Contribution paid to Defined Benefit Plans/ Gratuity		1,629,163	1,169,904	1,751,198	1,254,748
Taxes paid		(8,075,049)	(5,046,022)	(9,096,865)	(6,735,303)
<b>Net Cash Generated from Operating Activities</b>		<b>85,127,684</b>	<b>25,589,615</b>	<b>92,991,793</b>	<b>32,996,268</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of Investment Property		(44,160)	(1,040,000)	-	4,798
Purchase of Property, Plant and Equipment		(2,863,760)	(2,805,073)	(3,505,913)	(3,328,075)
Proceeds from the sale of Property, Plant and Equipment		74,206	27,306	78,220	46,041
Purchase of Financial Investments		(89,673,318)	(16,475,317)	(92,932,281)	(16,364,145)
Net purchase of Intangible Assets		(321,788)	(158,080)	(344,224)	(191,723)
Dividends received from Investment in Subsidiaries and Others		1,653,163	1,643,111	210,112	305,136
Net Cash and Cash Equivalents on Acquisition of Subsidiary		-	-	-	(1,114,082)
<b>Net Cash (used in) from Investing Activities</b>		<b>(91,175,657)</b>	<b>(18,808,053)</b>	<b>(96,494,086)</b>	<b>(20,642,050)</b>
<b>Cash Flows from Financing Activities</b>					
Increase of Assigned Capital		-	5,000,000	-	5,000,000
Proceed Received from Subordinated Debt		-	-	6,000,000	-
Repayment of Subordinated Debt		-	-	(5,213,713)	(3,785,560)
Interest paid on Subordinated Debt		(1,610,416)	(1,612,500)	(4,110,498)	(4,501,445)
Dividend paid to Non-Controlling Interest		-	-	(593,719)	(581,222)
Dividend/Levy paid to holders of other Equity Instruments		(3,419,690)	(5,219,690)	(3,419,690)	(5,219,690)
<b>Net Cash (used in) from Financial Activities</b>		<b>(5,030,106)</b>	<b>(1,832,190)</b>	<b>(7,337,620)</b>	<b>(9,087,917)</b>
Net Increase/(Decrease) in Cash & Cash Equivalents		(11,078,079)	4,949,373	(10,839,913)	3,266,301
Cash and Cash Equivalents at the Beginning of the Year		68,958,012	64,008,639	69,675,003	66,408,702
Cash and Cash Equivalents at the End of the Year		57,879,933	68,958,012	58,835,090	69,675,003

## NOTES TO THE FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

#### GRI 102-5

#### 1.1 Corporate Information

People's Bank ("The Bank") is a Government owned Bank, established under People's Bank Act No.29 of 1961 on 1 July 1961 and is domiciled in Sri Lanka. The registered office of the bank is at No. 75, Sir Chittappalam A Gardiner Mawatha, Colombo 02. The Consolidated Financial Statements of the Bank for the year ended 31 December 2018, comprises the Bank and its Subsidiaries (together referred to as the "Group")

Peoples Bank is the ultimate parent of the group.

#### 1.2 Principal Activities

##### Bank

The Bank's business comprises, accepting deposits, granting credit facilities, personal banking, development banking, pawn brokering, international trade, dealing in Government Securities, credit card operations, Investment Banking and Off Shore Banking Unit for foreign currency banking, inter alia.

##### Subsidiaries

The principal activities of the Bank's Subsidiaries are as follows;

Name of Company	Principal Activities
People's Leasing and Finance PLC	The principal business activities are providing finance leases, hire-purchase assets financing, term loans, Islamic finance, margin trading, share trading, issue of debt instruments, factoring, gold loans and mobilization of public deposits.
People's Travels (private) Limited	Arrangement of tours and air ticketing. (travel agent)
People's Merchant Finance PLC	Providing leasing, hire purchase, trade finance, real estate, short term investments, and corporate financial services.

##### Sub Subsidiaries

The principal activities of the Bank's Sub Subsidiaries are as follows;

Name of Company	Principal Activity
People's Leasing Fleet Management Limited	Fleet management, vehicle valuation, sale of vehicles, insurance assessment, and vehicle repairing.
People's Leasing Property Development Limited	Carrying out a mixed development projects and property development activities.
People's Insurance PLC	Carrying out general insurance business.
People's Microfinance Limited [Subsequently name changed as People's Micro - Commerce limited]	Providing non-bank financial services to low income earners and micro enterprises.

Name of Company	Principal Activity
People's Leasing Havelock Properties Limited	Construct and operate an office complex.
Lankan Alliance Finance Limited	Providing leasing of movable and immovable properties and to provide loans.

### 2. BASIS OF PREPARATION

#### 2.1. Statement of compliance

The consolidated financial statements of the group and the separate financial statements of the bank which comprise with the Income Statements, Statements of Comprehensive Income, Statements of Financial Position, Statements of Changes in Equity and Statements of Cash Flows have been prepared in accordance with Sri Lanka Accounting Standards (LKAS and SLFRS) as issued by the Institute of Chartered Accountants of Sri Lanka. The preparation and presentation of these financial statements are in compliance with the requirements of the People's Bank Act No.29 of 1961. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988.

#### 2.2 Directors Responsibility for Financial Statements

The Board of Directors is responsible for the Consolidated and Separate Financial Statements in compliance with the requirements of the People's Bank Act No.29 of 1961, Banking Act No. 30 of 1988 and its amendments and Sri Lanka Accounting Standards (LKAS and SLFRS).

#### 2.3 Approval of Financial Statements

The Consolidated and separate Financial Statements for the year ended 31 December 2018, were authorized for issue on 28th March 2019 by the Board of Directors.

#### 2.4 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following items in the statement of Financial position,

- ◆ Derivative financial instruments are measured at fair value
- ◆ Other Financial Assets Held-for-Trading are measured at fair value
- ◆ Financial instruments at fair value through profit or loss are measured at fair value
- ◆ Available-for-sale financial assets are measured at fair value
- ◆ Equity instruments at fair value through OCI are measured at fair value
- ◆ Debt instruments at fair value through OCI are measured at fair value
- ◆ The liability for defined benefit obligations are actuarially valued and recognized as the present value of the defined benefit obligation less the net total fair value of the plan assets.
- ◆ Land & Buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation of buildings and any impairment losses

## NOTES TO THE FINANCIAL STATEMENTS

### 2.5 Functional and Presentation Currency

The Consolidated and separate Financial Statements are presented in Sri Lanka Rupees, which is the Bank's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

### 2.6 Materiality and Aggregation

As per Sri Lanka Accounting Standards – LKAS 01 [Presentation of Financial Statements], each material class of similar item is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

### 2.7 Cash Flow Statement

The Cash Flow Statement has been prepared using the "Indirect Method" of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS 7) "Statement of Cash Flows". Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand, balances with banks and money at call and short notice.

### 2.8 Comparative Information

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of SLFRS 9. Therefore, the comparative information for 2017 is reported under LKAS 39 and is not comparable to the information presented for 2018.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Group's accounting policies, management has exercised judgment and estimates and assumptions in determining the amounts recognized in the Financial Statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about judgments, assumptions and estimates made in applying accounting policies that have the most significant effects on the amounts recognized in the Consolidated and Separate Financial Statements are set out below.

### 3.1. Going concern

The Directors have made an assessment of the group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, 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.

### 3.2 Defined Benefit Obligations

The value of the defined benefit obligations are determined using actuarial valuation technique. The actuarial valuation involves making assumptions on discount rates, expected rates of return on assets, future salary increases, and mortality rates. All assumptions are reviewed at each reporting date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See Note 41.1.5 & 41.3.5 for the assumptions used.

### 3.3 Fair value of property, plant and equipment

The freehold land & buildings and the buildings on leasehold land of the Group are reflected at fair value at the date of revaluation less any accumulated depreciation and impairment losses. The group engaged independent valuation specialists to determine fair value of such properties. When current market prices of similar assets are available, such evidences are considered in estimating fair value of these assets.

### 3.4 Useful life time of property, plant and equipment

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

The Group is subject to income tax and judgment is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

### 3.5 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. Details of commitments and contingencies are given in Note 47.

### 3.6 Classification of Investment Properties

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

### 3.7 Critical accounting assumptions and estimates

Assumptions made at each reporting date are based on best estimates at that date. Although the Bank has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are

reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies which are most sensitive to the use of judgment, estimates and assumptions are specified below.

#### **(i) Fair value measurement**

A significant portion of financial instruments are carried at fair value as of the financial reporting date.

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.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Bank has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Bank uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognizes the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

#### **(ii) Impairment charges on loans and advances**

Judgment is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Bank makes judgments mainly about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the loan portfolio (such as credit quality / levels of arrears, credit utilization etc.), and concentrations of risk and economic data (including levels of unemployment, Inflation, GDP Growth Rate etc.).

## **4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

### **4.1. New standards and interpretations**

In these financial statements, the Bank/Group has applied SLFRS 9, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

### **4.2. SLFRS 9 – Financial Instruments**

SLFRS 9 replaces LKAS 39 for annual periods on or after 1 January 2018.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of SLFRS 9. Therefore, the comparative information for 2017 is reported under LKAS 39 and is not comparable to the information presented for 2018.

Differences arising from the adoption of SLFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 6.

### **4.3. Changes to classification and measurement**

To determine their classification and measurement category, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- ◆ Debt instruments at amortised cost
- ◆ Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- ◆ Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- ◆ Financial assets at Fair Value through Profit or Loss

The accounting for financial liabilities remains largely the same as it was under LKAS 39, the group's classification of its financial assets and liabilities is explained in Notes 5.5. The quantitative impact of applying SLFRS 9 as at 1 January 2018 is disclosed in Note 6.

### **4.4. Changes to the impairment calculation**

The adoption of SLFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. SLFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Details of the Bank's impairment method are disclosed in Note 5.7. The quantitative impact of applying SLFRS 9 as at 1 January 2018 is disclosed in Note 6.

## NOTES TO THE FINANCIAL STATEMENTS

### 4.5. Sri Lanka Accounting Standard SLFRS 7R – “Financial Instruments: Disclosures”.

To reflect the differences between SLFRS 9 and LKAS 39, SLFRS 7 “Financial Instruments: Disclosures” was updated and the Bank has adopted it, together with SLFRS 9, for the year beginning on 1st January 2018. Changes include transition disclosures as shown in Note 6 to the financial statements, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 5.7 to the financial statements. Reconciliations from opening to closing ECL allowances are presented in Notes 6.3 and 6.6 to the financial statements.

### 4.6. Sri Lanka Accounting Standard SLFRS 15 – “Revenue from Contracts with Customers”

The Bank has applied SLFRS 15 for the first time in these financial statements, which is effective for annual periods beginning on or after 1st January 2018. Adoption of this standard did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank for the year beginning 1st January 2018.

## 5. SIGNIFICANT ACCOUNTING POLICIES

Group has consistently applied the accounting policies as set out from Note 5.1 to Note 5.26 to all periods presented in these consolidated and separate financial statements.

### 5.1. Basis of consolidation

The Financial Statements of the Bank and Group comprise the Financial Statements of the Bank and its Subsidiaries for the year ended 31 December 2018. The Financial Statements of the Bank's Subsidiaries for the purpose of consolidation are prepared for the same reporting year as that of People's Bank, using consistent accounting policies.

#### 5.1.1. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in Income Statement immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in Income Statement.

#### 5.1.2. Non-controlling interests (“NCI”)

NCI are measured at their proportionate share of the acquirer's identifiable net assets at the acquisition date. Changes in the Group's

interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### 5.1.3. Subsidiaries

‘Subsidiaries’ are investees controlled by the Group. The Group ‘controls’ an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

#### 5.1.4. Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in Income statement. Any interest retained in the former subsidiary, is measured at fair value when control is lost.

#### 5.1.5. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### 5.2. Foreign currency translation

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange on the reporting date. All differences arising on non-trading activities are taken to ‘Other operating income’ in the income statement.

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.

### 5.3. Financial instruments – Initial recognition

#### 5.3.1. Date of recognition

A financial asset or financial liability is recognised in the Statement of Financial position when the Bank becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and receivables are recognised when cash is advanced (or settled) to the borrowers.

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs

Non-regular purchases of financial assets and liabilities are recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument.



A regular purchase is a purchase of a financial asset under a contract whose terms require delivery of the assets within the timeframe established generally by a regulation or convention in the market place concerned.

### 5.3.2. 'Day 1' difference for Staff Loans

All staff loans are granted at below market interest rates and were recognized at fair value. The difference between the fair value and the amount disbursed were treated as day one difference and amortized as staff cost in the income statement over the loan period by using the effective interest rate. This amount is shown as interest income as well. Hence the net effect on the income statement is zero

### 5.4. Initial measurement of financial instruments (Policy applicable from 1 January 2018)

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 5.4.1 and 5.4.2 below. 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.

#### 5.4.1. Business model assessment

The Group's Business model is determined at a level that reflects how groups of Financial assets are managed together to achieve a particular business objective. The group's business model does not depend on management's intention for an individual instruments. Accordingly the Group's Business model is not an instrument-by-instrument approach to classification, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ◆ How the performance of a business model and the financial assets held within that business model are evaluated and reported to the group's key management personnel;
- ◆ The risk that affect the performance of the business model [and the financial assets held within the business model] and, in particular, the way in which those risks are managed;
- ◆ How managers of the business are compensated [whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected]

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows are realized in a way that is different from the group's original expectations, that neither give a rise to a prior period error nor change the classification of the remaining financial assets held in that business model. However when the group assesses the business model for newly originated or newly purchased financial assets, it considers information about how cash flows were realized in the past, along with all other relevant information.

#### 5.4.2. Contractual Cash flow assessment – Solely payments of principal and interest [ SPPI Test]

The Group assesses contractual cash flows of the basic lending arrangement to identify whether they meet SPPI test. That is whether they are solely payments of principal and interest on the principal amount outstanding.

For this purpose "Principal" is defined as the fair value of the financial asset at initial recognition. However that principal amount may change over the life of the financial asset.

For this purpose "Interest" consist of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin. Group applies judgment 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.

### 5.5. Measurement categories of financial assets and liabilities ( Policy applicable from 1 January 2018)

From 1 January 2018, all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics measured at either,

- ◆ Amortised Cost [Note 5.5.1]
- ◆ Fair Value through Other comprehensive income [Note 5.5.2]
- ◆ Fair value through profit or loss[Note 5.5.3]

#### 5.5.1. Financial Instruments measured at amortised cost Debt instruments

Investments in debt instruments are measured at amortised cost where they have:

- ◆ Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- ◆ Are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below in Note 5.7 Impairment of financial assets.

#### Loans and receivables to banks, Loans and receivables to other customers

From 1 January 2018, the group measures Loans and receivables to banks & Loans and receivables to other customers including leases and hire purchase contracts at amortised cost since 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.

#### 5.5.2. Financial assets measured at fair value through other comprehensive income

##### Debt instruments

Investments in debt instruments are measured at fair value through other comprehensive income where they have:

## NOTES TO THE FINANCIAL STATEMENTS

- ◆ contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- ◆ Are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognised in profit and loss. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement.

The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortised cost. The expected credit loss model is described below in Note 5.7 Impairment of financial assets.

### ***Equity instruments***

Investment in equity instruments that are neither held for trading nor contingent consideration recognized by the Bank in a business combination to which SLFRS 3 'Business Combination' applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by management. For portfolios where management does not consider an irrevocable election of adopting fair value through other comprehensive income, by default such investments shall be measured at fair value through profit and loss.

Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss.

### **5.5.3. Financial Assets at fair value through profit or loss**

Items at fair value through profit or loss comprise:

- (a) Items held for trading;
- (b) Items specifically designated as fair value through profit or loss on initial recognition; and
- (c) Debt instruments with contractual terms that do not represent solely payments of principal and interest.

Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the income statement as they arise.

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

### **(a) Financial instruments held for trading**

A financial instrument is classified as held for trading if it is acquired

or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship. Trading derivatives and trading securities are classified as held for trading and recognised at fair value.

### **(b) Financial instruments designated as measured at fair value through profit or loss**

Upon initial recognition, financial instruments may be designated as measured at fair value through profit or loss. A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch or:

- ◆ If a host contract contains one or more embedded derivatives; or
- ◆ If financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Bank's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

### **5.5.4. Derivative financial instruments and hedge accounting**

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable, and typically comprise of instruments such as swaps, forward rate agreements, futures and options.

All derivatives are recognised in the Statement of financial position at fair value and are classified as trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

### **5.5.5. Reclassification of financial assets and liabilities**

From 1 January 2018, with adoption of SLFRS 9, the Bank reclassifies its financial assets subsequent to the initial recognition when an only when the business model for managing such financial asset is changed. Such reclassification is applied prospectively from the reclassification date. Financial liabilities are never reclassified.

## **5.6. Measurement categories of financial assets and liabilities (Policy applicable before 1 January 2018)**

Before 1 January 2018, classification of financial instruments depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus significant transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

At inception a financial asset is classified in one of the following categories and the subsequent measurement of financial assets depend on their classification.

- ◆ At Fair Value through profit or loss / Held for trading, or Designated at fair value through profit or loss [ Note 5.6.1]
- ◆ Available-for-sale [ Note 5.6.2]
- ◆ Loans and receivables [ Note 5.6.3]
- ◆ Held to Maturity [ Note 5.6.4]

#### Financial Liabilities

The Group initially recognizes all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortized cost or fair value through profit or loss

The subsequent measurement of financial liabilities depends on their classification.

##### 5.6.1. Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities and equities that have been acquired principally for the purpose of trading in the short term. The Bank uses derivatives such as forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

##### 5.6.2. Available for sale financial investments

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein.

Unrealized gains and losses are recognised in the other comprehensive income. In the event of disposal of such an investment, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Other operating income'. Dividends earned whilst holding available for sale financial investments are recognised in the income statement as 'Other operating income' at the date of declaration by the company in which the investment is made. The losses arising from impairment of such investments are recognised in the income statement in 'Net gain/ (loss) from financial investments' and removed from the respective asset/investment account in the 'Statement of Financial Position'.

##### 5.6.3. Financial Assets classified as Loans and Receivables

- ◆ Financial Assets classified as Loans and Receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- ◆ Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- ◆ Those that the Bank, upon initial recognition, designates as available for sale
- ◆ Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortised cost using EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment are recognised in the income statement in 'Impairment expenses'

##### 5.6.4. Held to maturity financial investments

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. Such investments are mainly Treasury Bonds. Event to initial measurement, held to maturity financial investments are later measured at amortised cost using effective interest rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and significant fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'net gain/ (loss) from financial investments' if the Bank were to sell or reclassify a significant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, if this happens, the Bank would be prohibited from classifying any financial asset as held to maturity for two subsequent years.

##### 5.6.5. Reclassification of financial assets

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to Income Statement over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

The Bank may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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Reclassification is at the discretion of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

### 5.6.6. Other Financial Liabilities

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Other financial Liabilities include, deposits from customers, amount due from banks, borrowings from banks and others and debentures.

After initial measurement, other financial liabilities are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR

### 5.7. Impairment of financial assets ( Policy applicable from 1 January 2018)

From 1 January 2018, Group applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:

- ◆ Debt instruments measured at amortised cost and fair value through other comprehensive income;
- ◆ Loan commitments; and
- ◆ Financial guarantee contracts.

No ECL is recognised on equity investments.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

#### Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Bank determines 12 month ECL from customers whom are not significantly credit deteriorated (i.e. less than 30 days past due)

#### Stage 2: Lifetime ECL – not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

In consistent with the policies of the bank, significant deterioration is measured through the rebuttable presumption of 30 days past due other than the credit facilities categorized under Stage 3, in line with the requirements of the standard.

Bank also have considered all restructured loans, which are restructured up to two times, other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage consider under stage 2 as per the guidance issued by the Central Bank.

#### Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

Bank determines credit facilities where contractual payments of a customer are more than 90 days past due which are subject to the rebuttable presumption as stated in SLFRS 9 together with all NPL classifications as per Central Bank classification, All restructured loans which are restructured more than twice and all rescheduled loans other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage and all credit facilities/customers classified as non-performing as per CBSL Directions under stage 3.

#### 5.7.1. Determining the stage for impairment

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

The Bank assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry and other relevant factors.

### 5.7.2. Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- ◆ Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive.
- ◆ Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- ◆ Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
- ◆ Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

ECLs are recognised using a provision for doubtful debts account in profit and loss. In the case of debt instruments measured at fair value through other comprehensive income, the measurement of ECLs is based on the three-stage approach as applied to financial assets at amortised cost. The Bank recognizes the provision charge in profit and loss, with the corresponding amount recognised in other comprehensive income, with no reduction in the carrying amount of the asset in the Statement of financial position.

### 5.8. Impairment of financial assets ( Policy applicable before 1 January 2018)

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter Bankruptcy or other financial reorganization; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### 5.8.1. Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from Banks and loans and advances to customers), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an

individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited as an income.

The present values of the estimated future cash flows are discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as asset type, industry, ownership type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### 5.8.2. Renegotiated loans

Where possible, the Bank seeks to reschedule loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan

## NOTES TO THE FINANCIAL STATEMENTS

is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

### 5.8.3. 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, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and other credit enhancements.

### 5.8.4. Collateral repossessed or where properties have devolved to the Bank

The immovable property acquired by foreclosure of collateral from defaulting customers, or which has devolved on the Bank as part settlement of debt, has not been accounted for as an investment property or as part of the assets of the Bank in accordance with directions issued by the Central Bank of Sri Lanka.

### 5.8.5. Determination of fair value

A significant portion of financial instruments are carried on the Statement of financial position at fair value.

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.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Bank has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Bank uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognizes the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

## 5.9. De-recognition of financial assets and financial liabilities

### 5.9.1. Financial assets

The Bank derecognizes a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

### 5.9.2. Financial Liabilities

A financial liability is derecognized from the statement of financial position when the Bank has discharged its obligation or the contract is cancelled or expires.

### 5.9.3. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the Statement of financial position when the Bank has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously. Refer to Note on Financial risk management - Offsetting of financial assets and liabilities.

## 5.10. Leases

### 5.10.1. Finance Lease Income

Assets leased to customers to whom the group transfers substantially all the risks and rewards associated with ownership other than the legal title are classified as finance leases. Amounts receivable under finance leases are included under 'Lease Rental Receivable'. Leasing balances are stated in the statement of Financial Position after deduction of initial rentals received.

The excess of aggregate rentals receivable over the cost of the leased assets constitutes the total unearned income. The unearned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed in proportion to the remaining receivable balance of the lease.

### 5.10.2. Lease Payments

Payments made under operating leases are recognized in Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

## 5.11. Cash and cash equivalents

Cash and short term funds include cash in hand, balances with banks, placements with banks and money at call and at short notice. Details of the cash and short term funds are given in Note 18 to the Financial Statements.

### 5.12. Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

### 5.13. Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

#### 5.13.1. Basis of Recognition

Investment property is recognized if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

#### 5.13.2. Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete.

The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 (LKAS 40) "Investment Property". Accordingly, land classified as investment properties are stated at cost less any accumulated impairment losses and buildings classified as investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses.

### 5.14. Intangible assets and goodwill

#### 5.14.1. Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of Group's share of the net identifiable assets of the acquired Subsidiary at the date of acquisition. Goodwill acquired in a business combination is tested annually for impairment or more frequently if events or changes in circumstance indicate that it might be impaired and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

#### 5.14.2. Software

Software acquired by the Group is measured at cost less accumulated amortization and any accumulated impairment losses.

Expenditure on internally developed software is recognized as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs, and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and any impairment.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### 5.14.3. Amortization

Software is amortized on a straight-line basis in income statement over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is five years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### 5.15. Impairment of non-financial assets

#### 5.15.1. Basis of Recognition

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 (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

#### 5.15.2. Measurement

For assets excluding goodwill, an assessment is made 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 CGU'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 income statement.

Impairment losses relating to goodwill are not reversed in future periods.

Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's CGUs or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

## NOTES TO THE FINANCIAL STATEMENTS

Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with SLFRS 8 'Operating Segments'.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the income statement.

### 5.16. Financial guarantees

#### 5.16.1. Basis of Recognition

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 income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

#### 5.16.2. Measurement

Any increase in the liability relating to financial guarantees is recorded in the income statement in 'Credit loss expense'. The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

### 5.17. Pension benefits

#### 5.17.1. Defined benefit pension plan

##### 5.17.1.1 Pre - 1996 - Pension Fund

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1st January 1996, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit actuarial cost method.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31st December 2018, by Mr. Piyal S. Gunatilleke F.S.A (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The Bank provides a pension to retiring staff on the following basis; Staff are eligible to draw a pension after 10 years of service and after reaching normal age of retirement of 55 years. The quantum of pension paid is dependent on the length of service as follows:

	Length of Service	Quantum of Pension
i.	10 to 20 years	80% of last drawn salary
ii.	21 to 29 years	80% plus 1% for each additional year in excess of 20 years of last drawn salary.
iii.	30 years and above	90% of last drawn salary

The Accounts of the Pension Fund are maintained separately and are subject to annual audit by Independent External Auditors. The Statement of Accounts as well as the Auditors Report are tabled and reviewed by the Board of Trustees. These statements of Accounts and Auditor's Report are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at required levels. Pension is payable monthly as long as the participant is alive.

#### 5.17.1.2 Post-1996 Pension Fund

As approved by the Ministry of Finance the Bank has almost finalized a new pension fund for permanent employees who joined the Bank post 1st January 1996. Since the bank has concluded this as a defined benefit plan, the surplus/deficit has been recorded as per LKAS 19.

The latest actuarial valuation was carried out as of 31st December 2018, by Mr. Piyal S. Gunatilleke F.S.A (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

#### 5.17.1.3 Gratuity

Employees who joined the Bank on or after 1st January 1996 will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, or if opted can join the proposed new post 1996 pension fund and if so such employees will forfeit their right to gratuity.

Other employees whose services are terminated other than by retirement are eligible to receive terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of Gross Salary applicable to the last month of the financial year in which employment is terminated, for each year of continuous service, for those who have served in excess of 5 years.

If a participant who has completed 5 years of services becomes totally and permanently disabled, he is eligible for disability gratuity. Further if an active participant with minimum of 5 years of service, dies while in service, a gratuity benefit will be paid to his heirs.

The Bank makes a monthly provision towards such Gratuity Payment Liabilities and this value is reflected in the Statement of Financial Position of the Bank, the Bank made a provision based on the actuarial Valuation. However as per Sri Lanka Accounting Standards the Bank has provided for gratuity liability based on an Actuary Valuation.



The Subsidiary and Associate Companies of the Bank provide for gratuity under the Payment of Gratuity Act No. 12 of 1983. Provision for Gratuity has been made for employees who have completed one year of service with the companies. These liabilities are not externally funded.

#### **5.17.2. Defined contribution plans**

The Bank also operates a defined contribution plans. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

The Bank contributes to the following Schemes:

##### **5.17.2.1 Employees' Provident Fund**

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act and is maintained internally.

##### **5.17.2.2 Employees' Trust Fund**

The Bank contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

#### **5.17.3. Widow'/Widowers' and Orphans Pension Plan (Pre 1996 / Post 1996)**

A separate fund is maintained by the Bank to meet future obligations under the scheme, based on the advice of a qualified actuary.

#### **5.18 Provision**

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

#### **5.19. Commitments and Contingencies**

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a Subsidiary or Associate for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

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 recognized in the Statement of Financial Position but are disclosed unless they are remote.

#### **5.20. Taxes**

##### **5.20.1. Current Taxation**

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates

and tax laws used to compute the amount are those that are enacted or subsequently enacted by the Statement of financial position date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto from 01 January 2018 to 31 March 2018, and the Inland Revenue Act No.24 of 2017 from 01 April 2018 to 31 December 2018 at the rates specified in Note 15 to the Financial Statements.

##### **5.20.2. Deferred Taxation**

Deferred tax is provided using the liability method on temporary differences at the Statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

##### **5.20.2.1 Deferred tax Liability**

Deferred tax liabilities are recognized for all temporary differences, except:

- ◆ Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor the taxable profit or loss; and
- ◆ In respect of taxable temporary differences associated with investments in Subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

##### **5.20.2.2 Deferred tax Assets**

Deferred tax assets are recognized for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- ◆ Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and
- ◆ In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilized.

The carrying amount of a deferred tax asset is reviewed at each Statement of financial position date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax asset are reassessed at each Statement of financial position date and are recognized to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realized or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the Statement of financial position date.

## NOTES TO THE FINANCIAL STATEMENTS

### 5.20.3. Value Added Tax on Financial Services (FSVAT)

Bank's total value addition was subjected to a 15% Value Added Tax as per section 25A of the Value Added Tax No. 14 of 2002 and amendments thereto.

### 5.20.4. Value Added Tax (VAT)

Value Added Tax is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. VAT is payable at 15%

### 5.20.5. Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set-off against the income tax payable in four subsequent years.

### 5.20.6. Withholding Tax on Dividends (WHT)

Dividend distributed out of taxable profit of the local Subsidiaries attracts a 10% Withholding Tax up to 31 March 2018 and 14% from 01 April 2018 to 31 December 2018, deduction at source and is final tax liability for of the Bank.

### 5.20.7. Crop Insurance Levy (CIL)

As per the provision of the Section 14 of the Finance Act No. 12 of 2013, the Crop Insurance Levy (CIL) was introduced with effect from 1st April 2013. Accordingly, Bank is required to pay 1% of the profit after tax for a year of assessment to the National Insurance Trust Fund.

### 5.20.8. Nation Building Tax (NBT)

As per the provisions of the Nation Building Tax Act, No. 9 of 2009 and the subsequent amendments thereto, Nation Building Tax should be payable at the rate of 2% with effect from 1 January 2011 on the liable turnover as per the relevant provisions of the Act.

### 5.20.9. Nation Building tax on Financial Services (FSNBT)

With effect from 01 January 2014, NBT of 2% was introduced on supply of financial services via amendment to the NBT Act No 09 of 2009.

### 5.20.10. Debt Repayment Levy (DRL)

The Debt Repayment Levy (DRL) has been imposed by the Section 36 of Finance Act No. 35 of 2018 for a limited period of time, from 01 October 2018 to 31 December 2021. A levy of 7% is charged on the value addition attributable to the supply of financial services under the provisions of the said Act.

### 5.21. 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 specific recognition criteria for each type of income are given in note No. 7 to 11.

#### 5.21.1. Income from Government Securities and Securities Purchased under Resale Agreements

Discounts/ premium on treasury bills & treasury bonds are amortized over the period to reflect a constant periodic rate of return. The coupon

interest on treasury bonds is recognized on an accrual basis. The interest income on securities purchased under resale agreements is recognized in the Income Statement on Effective Interest rate [EIR] over the period of the agreement.

#### 5.21.2. Rental Income

Rental income arising on operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the Income Statement in 'other operating income'

### 5.22. Segmental reporting

The Bank's segmental reporting is based on the following operating segments: Retail Banking, Corporate Banking, and Treasury & Primary dealer unit, Leasing, Insurance, Finance and Travels. Information relating to above is disclosed in Note 51.

### 5.23. Deposit Insurance Scheme

In terms of the Banking Act Direction No 5 of 2010 "Insurance of Deposit Liabilities" issued on 27th September 2010 and subsequent amendments there to, all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following,

- ◆ Deposit liabilities to member institutions
- ◆ Deposit liabilities to Government of Sri Lanka
- ◆ 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
- ◆ Deposit liabilities held as collateral against any accommodation granted
- ◆ Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka.

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the bank maintains a capital adequacy ratio (CAR) of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks (with CAR below 14%) calculated on the total amount of eligible deposits as at the end of the quarter payable within a period of 15 days from the end of the quarter.

### 5.24. Subsequent Events

Events occurring after the Reporting Date are those events, favorable and unfavorable, that occur between the reporting date and the date of the Financial Statements are authorized for issue.

All material and important events which occur after reporting date have been considered and disclosed in note 48 to the Financial Statements as adjusted as applicable.

## 5.25. Policies Specific to Insurance Sector

### 5.25.1. Significant accounting estimates and assumptions

#### Non-life insurance contract liabilities

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter -Ferguson methods and frequency/severity method.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgment is also required in determining whether the pattern of insurance service provided by a contract requires amortization of unearned premium on a basis other than time apportionment.

### 5.25.2. Revenue recognition

#### Gross written premium

Non-life insurance gross written premium comprises the total premium receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy commences.

#### Reinsurance premium

Non-life gross reinsurance premium written comprises the total premium payable for the whole cover provided by contracts entered into the period and is recognized on the date on which the policy incepts. Premium includes any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premium is the proportion of premium written in a year that relates to periods of risk after the reporting date. Unearned reinsurance premium is deferred over the term of the underlying direct insurance policies.

## 5.26. New Accounting Standards Issued but not Effective

### 5.26.1. SLFRS 16 – “Leases”

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (“lessee”) and the supplier (“lessor”). SLFRS 16 will replace Sri Lanka Accounting Standard - LKAS 17 (Leases) and related interpretations, SLFRS 16 introduces a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new standard requires a lessee to:

- ◆ Recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value
- ◆ Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS 16 substantially carries forward the lessor accounting requirement under LKAS 17. Accordingly, a lessor continues to classify its leases as operating lease or finance lease, and to account for those two types of leases differently.

SLFRS 16 will become effective on 1st January 2019. The Group is currently assessing the impact on the implementation of the above standards.

## NOTES TO THE FINANCIAL STATEMENTS

### 6. TRANSITION DISCLOSURES

On 1 January 2018, The Bank\Group adopted the requirements of SLFRS 9 "Financial Instruments". The following tables set out the impact of adopting SLFRS 9 on the statement of financial position, and retained earnings including the effect of replacing LKAS 39's incurred credit loss calculations with SLFRS 9's Expected Credit Loss calculations. This transition disclosures provide a bridge between LKAS 39 'Financial Instruments: Recognition and Measurement', and SLFRS 9 "Financial Instruments" results.

#### 6.1 Statement of Financial Position - Bank

The Following table provides a reconciliation between the carrying amounts reported under LKAS 39 with the respective categories, to the balances reported under SLFRS 9 with the respective categories, as of 1st January 2018.

	Notes	LKAS 39 Measurement Category	Amount Rs.'000	Re -	Re -measurement		SLFRS 9 Measurement Amount Rs.'000	Category
				classification Rs.'000	ECL Rs.'000	Other Rs.'000		
<b>Assets</b>								
<b>Financial Assets</b>								
Cash and Cash Equivalents	A	L&R <sup>1</sup>	68,958,012	-	(7,508)	-	68,950,504	AC <sup>5</sup>
Balances with Central Bank of Sri Lanka		L&R <sup>1</sup>	65,689,278	-	-	-	65,689,278	AC <sup>5</sup>
Placements with Banks	B	L&R <sup>1</sup>	13,458,639	-	(6,170)	-	13,452,469	AC <sup>5</sup>
Derivative Financial Instruments		FVTPL <sup>2</sup>	334,230	-	-	-	334,230	FVTPL <sup>2</sup>
Other Financial Assets Held-for-Trading	C	FVTPL <sup>2</sup>	53,042,557	(53,042,557)	-	-	-	
<b>Financial assets - at fair value through profit or loss</b>	<b>C</b>			<b>53,042,557</b>	<b>-</b>	<b>-</b>	<b>53,042,557</b>	<b>FVTPL<sup>2</sup></b>
Loans and Receivables to Banks	D	L&R <sup>1</sup>	86,097,515	-	(217,071)	-	85,880,444	AC <sup>5</sup>
Loans and Receivables to Other Customers	E	L&R <sup>1</sup>	1,012,642,714	-	1,716,522	-	1,014,359,236	AC <sup>5</sup>
Financial Investments - Available-for-Sale		AFS <sup>3</sup>	3,415,344	(3,415,344)	-	-	-	
<b>Equity instruments at fair value through OCI</b>	<b>F</b>			<b>1,162,361</b>			<b>1,162,361</b>	<b>FVOCI<sup>7</sup></b>
<b>From : Financial Investments - Available-for-Sale</b>								
<b>Debt instruments at fair value through OCI</b>	<b>G</b>			<b>2,252,983</b>			<b>2,252,983</b>	<b>FVOCI<sup>7</sup></b>
<b>From : Financial Investments - Available-for-Sale</b>								
Financial Investments - Held-to-Maturity	H	HTM <sup>4</sup>	112,351,039	(112,351,039)	-	-	-	AC <sup>5</sup>
<b>Debt instruments measured at amortised cost</b>	<b>H</b>			<b>112,351,039</b>	<b>-</b>	<b>-</b>	<b>112,351,039</b>	<b>AC<sup>5</sup></b>
<b>Non Financial Assets</b>								
Investments in Subsidiaries		N/A <sup>5</sup>	1,325,766	-	-	-	1,325,766	N/A <sup>5</sup>
Goodwill and Intangible Assets		N/A <sup>5</sup>	225,058	-	-	-	225,058	N/A <sup>5</sup>
Property, Plant and Equipment		N/A <sup>5</sup>	25,047,501	-	-	-	25,047,501	N/A <sup>5</sup>
Investment Properties		N/A <sup>5</sup>	1,222,299	-	-	-	1,222,299	N/A <sup>5</sup>
Prepaid Leases		N/A <sup>5</sup>	483,886	-	-	-	483,886	N/A <sup>5</sup>
Other Assets		N/A <sup>5</sup>	22,805,270	-	-	-	22,805,270	N/A <sup>5</sup>
<b>Total Assets</b>			<b>1,467,099,108</b>	<b>-</b>	<b>1,485,772</b>	<b>-</b>	<b>1,468,584,880</b>	



## NOTES TO THE FINANCIAL STATEMENTS

- G As of 1 January 2018, The bank`s analysis highlighted that debt instruments previously been classified as AFS, are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the bank has classified these investments as debt instruments measured at FVOCI.
- H As of 1 January 2018, the bank did not have any debt instruments that did not meet the SPPI criterion [Contractual Cash flow assessment – Solely payments of principal and interest ] within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost,
- I With the adoption of SLFRS 9 the Bank measured the expected credit loss allowance for Contingent Liabilities and Commitments as well. So the resulted provision for the said items as of 01 January 2018 was Rs.1.9 Billion and recognised at other liabilities

**6.2 Equity Reconciliation - Bank**

The Following table provides the impact of transition to SLFRS 9 " Financial Instruments" on reserves and retained earnings previously reported under LKAS 39

	Available For Sale Reserve Rs.'000	Financial Assets at FVOCI Reserve Rs.'000	Retained Earnings Rs.'000
Closing Balance as at 31.12.2017 [ Under LKAS 39 ]	113,137	-	34,322,199
<b>Re -classifications</b>			
Reclassification of Equity Securities from available for sale to Equity instruments at fair value through OCI	(100,616)	100,616	-
Reclassification of Debt Securities from available for sale to Debt instruments at fair value through OCI	(12,521)	12,521	-
	(113,137)	113,137	-
<b>Re -Measurements</b>			
Impact of recognising SLFRS 9`s Expected Credit Loss on Financial Assets			
Cash and Cash Equivalents	-	-	(7,508)
Placements with Banks	-	-	(6,170)
Loans and Receivables to Banks	-	-	(217,071)
Loans and Receivables to Other Customers	-	-	1,716,522
Debt instruments at fair value through OCI	-	1,893	(1,893)
Contingent Liabilities and Commitments	-	-	(1,942,666)
	-	1,893	(458,787)
<b>Opening Balance as at 01.01.2018 [ Under SLFRS 9 ]</b>	-	115,030	33,863,412

**6.3 Impairment Loss on Financial Assets - Bank**

The Following table reconciles the aggregate Opening Impairment allowance under LKAS 39 "Financial Instruments: Recognition and Measurement", to the Expected Credit Loss Allowance (ECL) under SLFRS 9 " Financial Instruments". Further details in this regard are disclosed in Notes 18.4 , 20.2 , 24.2 , 25.2 ,29.2

Type of the Financial Instrument	Impairment Allowance Under LKAS 39 As at 31.12.2017 Rs.'000	Re -Measurements Rs.'000	Expected Credit Loss [ ECL ] under SLFRS 9 As at 01.01.2018 Rs.'000
<b>On Balance Sheet Assets</b>			
Cash and Cash Equivalents	-	7,508	7,508
Placements with Banks	-	6,170	6,170
Loans and Receivables to Banks	-	217,071	217,071
Loans and Receivables to Other Customers	61,604,938	(1,716,522)	59,888,416
Debt instruments at fair value through OCI	-	1,893	1,893
	61,604,938	(1,483,879)	60,121,059
<b>Contingent Liabilities and Commitments</b>			
Bank Guarantees	-	281,528	281,528
Letters of Credit	-	1,124,720	1,124,720
Usance Bills	-	536,418	536,418
	-	1,942,666	1,942,666
<b>Total</b>	61,604,938	458,787	62,063,725

#### 6.4 Statement of Financial Position - Group

The Following table provides a reconciliation between the carrying amounts reported under LKAS 39 with the respective categories, to the balances reported under SLFRS 9 with the respective categories, as of 1st January 2018.

Notes	LKAS 39 Measurement Category	Amount Rs.'000	Re - classification Rs.'000	Re -measurement		SLFRS 9 Measurement		
				ECL Rs.'000	Other Rs.'000	Amount Rs.'000	Category	
<b>Assets</b>								
<b>Financial Assets</b>								
	A	L&R <sup>1</sup>	69,675,003	-	(7,508)	-	69,667,495	AC <sup>6</sup>
		L&R <sup>1</sup>	65,689,278	-	-	-	65,689,278	AC <sup>6</sup>
	B	L&R <sup>1</sup>	18,944,087	-	(6,170)	-	18,937,917	AC <sup>6</sup>
		FVTPL <sup>2</sup>	334,230	-	-	-	334,230	FVTPL <sup>2</sup>
	C	FVTPL <sup>2</sup>	53,354,989	(53,354,989)	-	-	-	
	C		53,562,503	53,562,503	-	-	53,562,503	FVTPL <sup>2</sup>
	<b>From : Financial Investments - Held-for-Trading</b>			53,354,989				
	C			207,514				
	D	L&R <sup>1</sup>	86,436,113	-	(217,071)	-	86,219,042	AC <sup>6</sup>
	E	L&R <sup>1</sup>	1,143,766,774	-	1,134,140	(212,961)	1,144,687,953	AC <sup>6</sup>
		AFS <sup>3</sup>	4,483,905	(4,483,905)	-	-	-	
	<b>To : Financial Investments - Held-for-Trading</b>			(207,514)				
	<b>To : Debt instruments measured at amortised cost</b>			(10)				
	F			1,162,384			1,162,384	FVOCI <sup>7</sup>
	<b>From : Financial Investments - Available-for-Sale</b>							
	G			3,113,997			3,113,997	FVOCI <sup>7</sup>
	<b>From : Financial Investments - Available-for-Sale</b>							
	H	HTM <sup>4</sup>	117,137,814	(117,137,814)			-	AC <sup>6</sup>
	H			117,137,824	-	-	117,137,824	AC <sup>6</sup>
	<b>From : Financial Investments - Held-to-Maturity</b>			117,137,814				
	<b>From : Financial Investments - Available-for-Sale</b>			10				

## NOTES TO THE FINANCIAL STATEMENTS

Notes	LKAS 39 Measurement Category	Amount Rs.'000	Re - classification Rs.'000	Re -measurement		SLFRS 9 Measurement Amount Rs.'000	Category		
				ECL Rs.'000	Other Rs.'000				
<b>Non Financial Assets</b>									
	Goodwill and Intangible Assets	N/A <sup>5</sup>	679,663	-	-	-	679,663	N/A <sup>5</sup>	
	Property, Plant and Equipment	N/A <sup>5</sup>	33,757,975	-	-	-	33,757,975	N/A <sup>5</sup>	
	Investment Properties	N/A <sup>5</sup>	177,501	-	-	-	177,501	N/A <sup>5</sup>	
	Prepaid Leases	N/A <sup>5</sup>	483,886	-	-	-	483,886	N/A <sup>5</sup>	
	Other Assets	N/A <sup>5</sup>	24,157,374	-	-	-	24,157,374	N/A <sup>5</sup>	
	<b>Total Assets</b>		1,619,078,592	-	903,390	(212,961)	1,619,769,021		
<b>Liabilities</b>									
<b>Financial Liabilities</b>									
	Due to Banks	AC <sup>6</sup>	100,628,552	-	-	-	100,628,552	AC <sup>6</sup>	
	Derivative Financial Instruments	FVTPL <sup>2</sup>	273,975	-	-	-	273,975	FVTPL <sup>2</sup>	
	Due to Other Customers	AC <sup>6</sup>	1,305,625,750	-	-	-	1,305,625,750	AC <sup>6</sup>	
	Other Borrowings	AC <sup>6</sup>	33,634,482	-	-	-	33,634,482	AC <sup>6</sup>	
	Subordinated Term Debts	AC <sup>6</sup>	32,447,923	-	-	-	32,447,923	AC <sup>6</sup>	
<b>Non Financial Liabilities</b>									
	Current Tax Liabilities	N/A <sup>5</sup>	4,367,318	-	-	-	4,367,318	N/A <sup>5</sup>	
	Net Deferred Tax Liabilities	N/A <sup>5</sup>	7,277,032	-	-	-	7,277,032	N/A <sup>5</sup>	
	Other Liabilities	I	N/A <sup>5</sup>	28,380,411	-	1,942,666	-	30,323,077	N/A <sup>5</sup>
	<b>Total Liabilities</b>		1,512,635,443	-	1,942,666	-	1,514,578,109		
<b>Equity</b>									
	Stated Capital/Assigned Capital		12,201,998				12,201,998		
	Statutory Reserve Fund		5,814,744				5,814,744		
	Other Reserves		26,913,806		1,893	(23,321)	26,892,378		
	Retained Earnings		52,191,314		(842,333)	(189,640)	51,159,341		
	<b>Total Shareholders' Equity</b>		97,121,862				96,068,461		
	Non-Controlling Interests		9,321,287		(198,836)		9,122,451		
	<b>Total Equity</b>		106,443,149	-	(1,039,276)	(212,961)	105,190,912		
	<b>Total Equity and Liabilities</b>		1,619,078,592	-	903,390	(212,961)	1,619,769,021		

<sup>1</sup> Loans & Receivables<sup>3</sup> Available For Sale<sup>5</sup> Not Applicable<sup>7</sup> Fair Value Through Other Comprehensive Income<sup>2</sup> Fair Value Through Profit or Loss<sup>4</sup> Held to Maturity<sup>6</sup> Amortised Cost**Notes**

- A As of 1 January 2018, Cash equivalents included Cash at Banks and Money at Call & Short notice. In respect of these items, Group recognised Rs. 7.5 Million as allowance for expected credit loss in line with SLFRS 9. This is further elaborated under note 18.4
- B Placements with banks comprised with the Money Market Placements and Fixed deposits as of 1 January 2018. An Expected credit loss of Rs.6.1 Mn was recognised in this regard as per provisions of SLFRS 9. for details refer note 20.2
- C As of 1 January 2018, The group's analysis highlighted that the entire portfolio of held for trading investments of the bank is to be classified as financial Assets at Fair Value through profit or loss. Further the group has classified a portion of its previously AFS portfolio as financial Assets at Fair Value through profit or loss, amount to Rs.207,514 [Rs. 000] These instruments do not met the SPPI criterion, were actively traded and were held with the intention to sell
- D Characteristics of the instruments classified as "Loans & Receivables to banks" will qualify the contractual cash flow test (SPPI test). Upon the completion of the SPPI test the business model of Sri Lanka Development Bonds, Restructuring Bonds and Securities purchased under resale agreements, is achieved by collecting contractual cash flows. therefore the group will measure the balance at amortised cost. Further an ECL of Rs. 217 Mn has been recognised as of 1 January 2018 pertaining to these investments which is detailed under note 24.2



- E Characteristics of the products under "Loans & Receivables to Customers" will pass the contractual cash flow test (SPPI test) and the Group's intention on loans and advances to customers will meet the business model requirements of amortised cost. Further the migration to expected credit loss model from incurred loan loss model, resulted in 1.1 Billion decrease in loan loss provisioning as of 1 January 2018 which is detailed under note 25.2
- F The Group has elected the option to irrevocably designate some of its previous AFS equity instruments as Equity instruments at FVOCI since these shares are neither held for trading nor contingent consideration recognized by the group in business combinations.
- G As of 1 January 2018, The group's analysis highlighted that debt instruments previously been classified as AFS, are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the group has classified these investments as debt instruments measured at FVOCI.
- H As of 1 January 2018, the bank did not have any debt instruments that did not meet the SPPI criterion [Contractual Cash flow assessment – Solely payments of principal and interest ] within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost. But the group's analysis has classified a portion of its previous AFS portfolio as debt instruments at amortised cost. These instruments met the SPPI criterion, were not actively traded and were held with the intention to collect cash flows and without the intention to sell.
- I With the adoption of SLFRS 9 the Bank measured the expected credit loss allowance for Contingent Liabilities and Commitments items as well. So the resulted provision for the said items as of 01 January 2018 was Rs.1.9 Billion and recognised at other liabilities

### 6.5 Equity Reconciliation - Group

The Following table provides the impact of transition to SLFRS 9 "Financial Instruments" on reserves and retained earnings previously reported under LKAS 39

	Available For Sale Reserve Rs.'000	Financial Assets at FVOCI Reserve Rs.'000	Retained Earnings Rs.'000
Closing Balance as at 31.12.2017 [ Under LKAS 39 ]	136,458	-	52,191,314
<b>Re -classifications</b>			
Reclassification of Equity Securities from available for sale to Equity instruments at fair value through OCI	(100,616)	100,616	
Reclassification of Investment Securities ( Debt & Equity) from available for sale to Financial assets at FVTPL	(23,321)		23,321
Reclassification of Debt Securities from available for sale to Debt instruments at fair value through OCI	(12,521)	12,521	-
	(136,458)	113,137	23,321
<b>Re -Measurements</b>			
Impact of recognising SLFRS 9's Expected Credit Loss on Financial Assets			
Cash and Cash Equivalents	-	-	(7,508)
Placements with Banks	-	-	(6,170)
Loans and Receivables to Banks	-	-	(217,071)
Loans and Receivables to Other Customers	-	-	921,179
Debt instruments at fair value through OCI	-	1,893	(1,893)
Contingent Liabilities and Commitments	-	-	(1,942,666)
	-	1,893	(1,254,130)
<b>Total Impact on Equity upon Transition</b>	<b>(136,458)</b>	<b>115,030</b>	<b>(1,230,809)</b>
Impact attributable to Non Controlling Interest			(198,836)
Opening Balance as at 01.01.2018 [ Under SLFRS 9 ]	-	115,030	51,159,341

## NOTES TO THE FINANCIAL STATEMENTS

## 6.6 Impairment Loss on Financial Assets - Group

The Following table reconciles the aggregate Impairment allowance under LKAS 39 "Financial Instruments: Recognition and Measurement", to the Expected Credit Loss Allowance (ECL) under SLFRS 9 "Financial Instruments". Further details in this regard are disclosed in Notes 18.4 , 20.2, 24.2 , 25.2 , 29.2

Type of the Financial Instrument	Impairment Allowance Under LKAS 39		Expected Credit Loss [ ECL ] under SLFRS 9
	As at 31.12.2017 Rs.'000	Re -Measurements Rs.'000	As at 01.01.2018 Rs.'000
<b>On Balance Sheet Assets</b>			
Cash and Cash Equivalents	-	7,508	7,508
Placements with Banks	-	6,170	6,170
Loans and Receivables to Banks	-	217,071	217,071
Loans and Receivables to Other Customers	65,349,493	(1,134,140)	64,215,353
Debt instruments at fair value through OCI	-	1,893	1,893
	65,349,493	(901,497)	64,447,996
<b>Contingent Liabilities and Commitments</b>			
Bank Guarantees		281,528	281,528
Letters of Credit		1,124,720	1,124,720
Usance Bills		536,418	536,418
	-	1,942,666	1,942,666
<b>Total</b>	65,349,493	1,041,169	66,390,662

## 7 GROSS INCOME

## ACCOUNTING POLICY

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank\Group and the revenue can be reliably measured. The specific recognition criteria for each type of income are given under respective income notes.

For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Interest Income	171,134,700	149,184,471	200,310,780	173,820,509
Fee and Commission Income	6,956,292	5,132,907	7,813,893	5,769,244
Net Gain/(Loss) from Trading	4,555,089	2,782,102	4,467,581	2,815,322
Other Operating Income (Net)	3,331,289	3,735,911	6,765,203	6,448,712
	185,977,370	160,835,391	219,357,457	188,853,787

## 8. NET INTEREST INCOME

**ACCOUNTING POLICY**

The Bank\Group calculates interest income\expense by applying the Effective Interest Rate [EIR] to the gross carrying amount of Financial Assets\Liability other than credit impaired assets

**The Effective Interest rate method**

Under both SLFRS 9 and LKAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under LKAS 39 are also recorded by using the EIR method. Interest expense is recorded using the effective interest rate (EIR) method for liabilities recorded as due to banks, due to other customers and other borrowings.

EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
<b>8.1 Interest Income</b>				
Cash And Cash Equivalents	197,171	238,338	197,171	627,723
Placements with banks	381,625	195,443	360,206	195,509
Loans and receivables - To Banks	6,349,216	6,955,577	6,349,216	6,955,577
Other Financial assets held-for-trading	-	9,223,684	-	9,223,684
Financial Assets - At Fair Value through Profit or Loss	6,615,094	-	6,615,094	-
Loans and receivables to other customers	141,298,766	118,727,914	170,496,265	142,974,501
Financial investments - Held-to-maturity	-	12,343,729	-	12,343,729
Debt instruments measured at amortised cost	14,830,606	-	14,830,606	-
Financial investments - Available-for-sale	-	517,741	-	517,741
Debt instruments at fair value through OCI	434,226	-	434,226	-
Day one difference on staff loans	1,027,996	982,045	1,027,996	982,045
<b>Total Interest Income</b>	<b>171,134,700</b>	<b>149,184,471</b>	<b>200,310,780</b>	<b>173,820,509</b>
<b>8.2 Interest Expenses</b>				
Due to banks	4,768,560	4,195,944	7,697,022	6,750,915
Due to other customers	103,129,413	90,447,630	110,179,879	95,895,830
Other Borrowings	1,524,357	2,462,562	2,619,474	4,219,105
Debt securities issued	1,612,592	1,612,500	3,960,814	4,209,131
<b>Total Interest Expenses</b>	<b>111,034,922</b>	<b>98,718,636</b>	<b>124,457,189</b>	<b>111,074,981</b>
<b>Net Interest Income</b>	<b>60,099,778</b>	<b>50,465,835</b>	<b>75,853,591</b>	<b>62,745,528</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 9. NET FEE AND COMMISSION INCOME

**ACCOUNTING POLICY**

The Bank\Group earns fee and commission income from a diverse range of services it provides to its customers. Fees and commission income are recognised when the service is performed. Fees earned for the provision of services over a period of time are accrued over that period.

For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
<b>9.1 Fee and Commission Income</b>				
Loans	246,606	193,300	246,606	193,300
Cards	564,663	443,999	564,663	443,999
Trade and remittances	1,757,689	1,328,049	1,757,689	1,328,049
Investment banking	35,488	9,517	35,488	9,517
Deposits	3,525,376	2,369,131	3,524,724	2,369,131
Guarantees	674,486	656,400	674,486	656,400
Others	151,984	132,511	1,010,237	768,848
	6,956,292	5,132,907	7,813,893	5,769,244
<b>9.2 Fee and Commission Expenses</b>				
Cards	204,118	115,511	204,118	115,511
Trade and remittances	1,784	2,168	1,784	2,168
Investment banking	3,936	4,559	3,936	4,559
Guarantees	3,811	3,131	3,811	3,131
Others	149,793	135,404	149,793	135,404
	363,442	260,773	363,442	260,773
Net Fee and Commission Income	6,592,850	4,872,134	7,450,451	5,508,471

## 10. NET GAIN/(LOSS) FROM TRADING

**ACCOUNTING POLICY**

Net gains/(losses) from trading comprise foreign exchange gain or losses arising from trading activities, realised gains or losses from investment in equities and fixed income securities classified as "Financial Assets - At Fair Value through Profit or Loss" [ Classified as "Held for trading" in previous year ] and unrealised gains and losses due to changes in fair value of such instruments.

Gains and losses arising from changes in fair value of the said instruments are recognised in the income statement in the period in which they arise and Derivative Financial instruments are fair valued at each reporting date.

For the year ended 31 December	Note	BANK		GROUP	
		2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
<b>10. Net Gain/(Loss) from Trading</b>					
Gain/(Loss) from Trading	10.1	6,105,805	2,249,834	6,018,297	2,280,207
Net fair value gains/(losses)	10.2	(1,550,716)	532,268	(1,550,716)	535,115
		4,555,089	2,782,102	4,467,581	2,815,322

For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
<b>10.1 Gain/(Loss) from Trading</b>				
Foreign Exchange	6,016,099	2,119,499	6,016,099	2,119,499
Government Securities [Treasury Bills & Treasury Bonds ]	162,923	125,763	162,923	125,763
Equities	(73,217)	4,572	(160,725)	34,945
	6,105,805	2,249,834	6,018,297	2,280,207
<b>10.2 Net fair value gains/(losses)</b>				
Derivatives	(1,409,076)	117,381	(1,409,076)	117,381
Government Securities				
Treasury Bills	(140,361)	84,799	(140,361)	84,799
Treasury Bonds	(1,279)	330,088	(1,279)	332,935
	(1,550,716)	532,268	(1,550,716)	535,115

## 11. OTHER OPERATING INCOME

### ACCOUNTING POLICY

#### Profit / Loss from Sale of Property, Plant and Equipment

Profit / loss from sale of property, plant and equipment is recognized when the control has passed to the other party

#### Dividend from investment

Dividend income is recognised when the Bank's\Group`s right to receive the payment is established.

#### Recovery of bad debts written off

Recovery of amounts written off as bad debts is recognised, when the amount has received

#### Net Earned Premium

Net Earned Premium refers to the gross written premium less premium ceded to reinsurance and change in reserve unearned premium, which is described under note 5.25 to these financial statements

#### Rental Income

Rental income arising on operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases .

For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Profit / Loss from Sale of Property, Plant and Equipment	56,569	27,306	78,220	46,041
Dividend from investment				
- Quoted	48,697	54,538	88,252	198,921
- Unquoted	121,860	106,215	121,860	106,215
- Subsidiaries	1,482,606	1,482,358	-	-
Recovery of bad debts written off	61,266	49,823	199,909	224,932
Net Earned Premium	-	-	4,304,732	3,777,037
Others	1,560,291	2,015,671	1,972,230	2,095,566
<b>Total</b>	<b>3,331,289</b>	<b>3,735,911</b>	<b>6,765,203</b>	<b>6,448,712</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 12. IMPAIRMENT CHARGE

**ACCOUNTING POLICY**

From 1 January 2018, Bank\ Group recognised impairment loss on financial assets by applying the three-stage approach to measure expected credit losses (ECLs) under Sri Lanka Accounting Standard – SLFRS 9 – “Financial Instruments” of which details are given under Note 5.7. Impairment of financial assets. ( Policy applicable from 1 January 2018)

Before 1 January 2018, Bank\ Group recognised impairment loss for loans and receivables based on the incurred loss model under Sri Lanka Accounting Standard – LKAS 39 – “ Financial Instruments: Recognition and Measurement” of which details are given under Note 5.8. Impairment of financial assets ( Policy applicable before 1 January 2018)

Further, the Bank/Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount of that asset through use or sale, as per Sri Lanka Accounting Standard – LKAS 36 – “Impairment of Assets”. Details are given under note 5.15

## 12.1 Bank

For the Year Ended 31 December

	Note	2018			Total
		Stage 1	Stage 2	Stage 3	
		Rs.'000			
Cash and Cash Equivalents	18.4	(5,493)	2,543	-	(2,950)
Placements with Banks	20.2	(5,598)	-	-	(5,598)
Loans and Receivables to Banks	24.2	(167,355)	-	-	(167,355)
Loans and Receivables to Other Customers	25.3	2,266,110	650,967	5,543,976	8,461,053
Debt instruments at fair value through OCI	29.2	(1,097)	6,564	-	5,467
Contingent Liabilities and Commitments	47.3	7,828	49,111	(1,328,318)	(1,271,379)
<b>Total Impairment Charge on Financial Assets</b>		<b>2,094,395</b>	<b>709,185</b>	<b>4,215,658</b>	<b>7,019,238</b>
<b>Others</b>					
Investment in Subsidiaries	31.3				298,223
<b>Total Impairment Charge</b>					<b>7,317,461</b>

For the year ended 31 December

	Individual Impairment	Collective Impairment	2017		Total
			Other	Total	
	Rs.'000				
Total Impairment Loss	1,324,326	24,134	-		1,348,460

## 12.2 Group

For the year ended 31 December

	Note	2018			Total
		Stage 1	Stage 2	Stage 3	
		Rs.'000			
Cash and Cash Equivalents	18.4	(5,493)	2,543	-	(2,950)
Placements with Banks	20.2	(5,598)	-	-	(5,598)
Loans and Receivables to Banks	24.2	(167,355)	-	-	(167,355)
Loans and Receivables to Other Customers	25.3	2,123,605	742,346	6,507,989	9,373,940
Debt instruments at fair value through OCI	29.2	(1,097)	6,564	-	5,467
Contingent Liabilities and Commitments	47.3	7,828	49,111	(1,328,318)	(1,271,379)
<b>Total Impairment Charge on Financial Assets</b>		<b>1,951,890</b>	<b>800,564</b>	<b>5,179,671</b>	<b>7,932,125</b>
<b>Others</b>					
Loss on disposal of collaterals including write-offs		-	-	-	888,902
<b>Total Impairment Charge</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>8,821,027</b>

For the year ended 31 December

	2017			Total
	Individual Impairment	Collective Impairment	Other	
Total Impairment Loss	1,547,969	1,314,032	187,860	3,049,861

### 13. PERSONNEL EXPENSES

#### ACCOUNTING POLICY

Personnel expenses include staff salaries, bonus, contribution to defined contribution/benefit plans and other staff related expenses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Salaries , bonus & related expenses	15,072,459	11,930,626	18,927,085	12,935,207
Contribution to defined benefit plan - Pension Funds (Note 13.1.)	1,566,985	1,095,455	1,566,985	1,095,455
Contribution to defined benefit plan - Gratuity (Note 13.2)	62,178	74,449	184,213	159,293
Amortization of pre paid staff cost	1,027,996	982,045	1,029,367	982,653
Others	2,175,217	1,144,883	2,175,217	3,268,220
<b>Total</b>	<b>19,904,835</b>	<b>15,227,458</b>	<b>23,882,867</b>	<b>18,440,828</b>

#### 13.1 Contribution to defined benefit plan - Pension Funds

The Bank operates two defined benefit pension plans, for the permanent staff members who have joined the Bank prior to 1st January 1996 and after 1st January 1996, which requires contributions to be made to a separately administered funds. The Bank recognises all actuarial gains and losses arising from these pension funds in the Other Comprehensive Income (OCI) and the expenses related to these funds recorded under personnel expenses in the income Statement. Details of these defined benefit plans are given in "Employee retirement benefit plans" (Note 41.1 & Note 41.3).

For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Contribution to defined benefit plan - Pre 1996 Pension Trust Fund ( Note 41.1.3)	1,406,779	1,095,455	1,406,779	1,095,455
Contribution to defined benefit plan - Post 1996 Pension Fund ( Note 41.3.3)	160,206	-	160,206	-
	<b>1,566,985</b>	<b>1,095,455</b>	<b>1,566,985</b>	<b>1,095,455</b>

#### 13.2 Contribution to Defined Benefit Plan-Gratuity ( Note 41.2)

For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Current Service Cost	29,372	34,796	90,390	117,315
Interest Cost	32,805	39,653	93,822	41,978
Net expense	<b>62,178</b>	<b>74,449</b>	<b>184,213</b>	<b>159,293</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 14. OTHER EXPENSES

**ACCOUNTING POLICY**

Other expenses have been recognised in the Income Statement as they are incurred in the period to which they relate. All expenditure incurred in running of the business and maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement in arriving at the profit of the year

Depreciation / Amortisation methods and rates are as stipulated in the note 33 [ Property Plant and Equipment ]

For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Directors' Emoluments	6,308	7,331	22,869	18,820
Auditors' Remunerations	14,734	5,869	26,876	19,359
Non Audit Fees to Auditors	5,061	4,428	11,292	9,188
Professional and Legal Expenses	180,511	136,172	242,735	156,162
Depreciation of Property, Plant and Equipment	1,505,250	1,081,440	1,795,209	1,352,823
Amortisation of Leasehold Property	128,629	94,989	128,629	94,989
Depreciation of Investment Property	1,707	1,707	1,707	1,707
Amortisation of Intangible Assets	107,329	43,536	154,414	58,937
Amortisation of Prepayment Leases	22,909	30,856	25,975	30,856
Office Administration and Establishment Expenses	9,115,367	7,707,881	11,348,248	10,348,197
Benefits, Claims and Underwriting expenditure	-	-	3,110,684	2,713,961
Deposit Insurance	1,600,527	1,395,878	1,600,527	1,395,878
Others	2,716,616	2,584,307	2,761,323	2,567,751
<b>Total</b>	<b>15,404,948</b>	<b>13,094,394</b>	<b>21,230,488</b>	<b>18,768,628</b>

## 15. TAX EXPENSES

**ACCOUNTING POLICY****Current Taxation**

As per Sri Lanka Accounting Standard - LKAS 12 - "Income taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in Other Comprehensive Income (OCI), in which case it is recognised in OCI.

Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendments thereto. Detailed disclosure of accounting policies are given in note No. 5.20 to these financial statements

**Deferred Taxation**

Deferred tax is provided using the liability method on temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Detailed disclosure of accounting policies and estimate of deferred tax is available in note 5.20.2 to the financial statements



For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Current year tax expense				
Income Tax Expense (Note 15.1)	8,014,334	7,724,267	9,996,906	9,225,208
Deemed Dividend Tax	-	77,520	-	-
Prior years'(over)/ under provision	27	(1,123,124)	27	(1,123,123)
Deferred tax expense ( Note 15.2)	(702,794)	984,666	(327,478)	1,255,425
Total Tax Expense	7,311,567	7,663,329	9,669,455	9,357,510
<b>Effective Tax Rate</b>	<b>30.0%</b>	29.9%	<b>31.0%</b>	31.3%

#### 15.1 Reconciliation of tax expenses

For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Profit before Tax for the year	24,406,490	25,913,105	31,161,598	29,868,431
Income tax for the period (Accounting profit @Applicable tax rate)	6,833,817	7,255,670	8,725,247	8,363,161
Add :				
Tax effect of expenses that are not deductible for tax purposes	5,455,940	2,854,684	13,307,255	27,078,826
(Less) :				
Tax effect of expenses that are deductible for tax purposes	(4,275,423)	(2,386,087)	(12,035,596)	(26,216,779)
Income Tax expense for the Period	8,014,334	7,724,267	9,996,906	9,225,208

#### 15.2 The Deferred Tax (credit)/charge in the Profit /(Loss) comprise of the following.

For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Deferred tax assets	(1,345,035)	847,909	348,669	912,080
Deferred tax liabilities	642,241	136,757	(676,147)	343,345
Deferred tax (credit) /charge to Profit or Loss	(702,794)	984,666	(327,478)	1,255,425

## NOTES TO THE FINANCIAL STATEMENTS

## 15.3 The Deferred Tax (credit)/charge in other Comprehensive Income comprise of the following.

For the year ended 31 December	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Retirement benefit	202,010	41,067	195,647	35,060
Other Temporary Difference - Revaluation of Assets	-	3,366,405	203,114	3,732,371
Deferred tax (credit) /charge to Profit or Loss				
	202,010	3,407,472	398,761	3,767,431
Net Deferred Tax for the Year	(500,784)	4,392,138	71,283	5,022,856

## 15.3 Applicable rates exemptions, concessions or holidays granted on income tax

	2018	2017
Domestic Operation of the Bank	28%	28%
On-Shore Banking Operations of the Off-Shore Banking Unit	28%	28%
Off-Shore Banking Operations of the Off-Shore Banking Unit	28%	28%
People's Leasing and Finance PLC	28%	28%
People's Travels (Pvt) Ltd.	14%	12%
People's Merchant Finance PLC	28%	28%
People's Micro Finance Limited	28%	28%
People's Fleet Management Limited	28%	28%

The tax liabilities of the group are computed at the above rates except for the following companies which enjoy exemptions and concessions.

**People's Leasing Property Development Limited**

Pursuant to the agreement dated 3rd December 2008 entered into by People's Leasing Property Development Limited with the Board of Investment under Section 17 of the Board of Investment Law, for the business of setting up and operating a mixed development project, the Inland Revenue Act relating to the imposition payment and recovery of income tax shall not apply for a period of five years reckoned from the year in which the Company makes profit or any year of assessment not later than two years reckoned from the date of commencement of its commercial operations whichever is earliest. The Company is eligible for a 10% concessionary tax rate for a period of 2 years immediately succeeding the last date of tax exemption period and a 20% concessionary tax rate after the expiration of the 10% concessionary tax period.

**People's Leasing Havelock Properties Limited**

Pursuant to the agreement dated 16th December 2010 entered into by People's Leasing Havelock Properties Limited with the Board of Investment under Section 17 of the Board of Investment Law, for the business of setting up and operating a mixed development project, the Inland Revenue Act relating to the imposition, payment and recovery of income tax shall not apply for a period of five years reckoned from the year in which the Company makes profit or any year of assessment not later than two years reckoned from the date of commencement of its commercial operations whichever is earliest. The Company is eligible for a 10% concessionary tax rate for a period of 2 years immediately succeeding the last date of tax exemption period and a 20% concessionary tax rate after the expiration of the 10% concessionary tax period.

**16 EARNINGS PER SHARE****16.1 Basic Earnings per Share**

As per Sri Lanka Accounting Standard - LKAS 33 "Earnings per Share", The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted- average number of ordinary shares outstanding during the year.

	BANK		GROUP	
	2018	2017	2018	2017
Net profit attributable to ordinary equity holders (Rs 000')	17,094,923	18,249,776	19,977,862	19,295,734
Weighted average No. of ordinary shares in issue (000')	1,000	1,000	1,000	1,000
<b>Basic Earnings Per Share (Rs.)</b>	<b>17,095</b>	<b>18,250</b>	<b>19,978</b>	<b>19,296</b>

**16.2 Diluted Earnings per Share**

As per Sri Lanka Accounting Standard - LKAS 33 "Earnings per Share", The Calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted- average number of ordinary shares outstanding during the year , after adjustment for the effects of all dilutive potential ordinary shares.

	BANK		GROUP	
	2018	2017	2018	2017
Net profit attributable to ordinary equity holders (Rs 000')	17,094,923	18,249,776	19,977,862	19,295,734
Weighted average no of ordinary shares in issue (000')	1,000	1,000	1,000	1,000
Number of ordinary shares in Capital pending Allotment (000')	243,040	243,040	243,040	243,040
Total Number of Shares in issue and pending allotment (000')	244,040	244,040	244,040	244,040
<b>Diluted Earnings per share (Rs.)</b>	<b>70</b>	<b>75</b>	<b>82</b>	<b>79</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 17. MEASUREMENT OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of the financial instruments by category as defined in Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) [2017: as per Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments - Recognition and Measurement)] under the headings of the Statement of Financial Position.

## 17.1 Bank - 2018

ASSETS	FVTPL <sup>2</sup>	FVOCI <sup>7</sup>	AC <sup>6</sup>	Total
Cash and cash equivalents	-	-	57,879,933	57,879,933
Balances with Central Bank	-	-	51,615,796	51,615,796
Placements with Banks	-	-	4,350,726	4,350,726
Derivative Financial Instruments	1,163,384	-	-	1,163,384
Financial assets - at fair value through profit or loss	54,052,435	-	-	54,052,435
Financial assets - at amortised cost				
Loans and receivables to banks	-	-	32,167,421	32,167,421
Loans and receivables to other customers	-	-	1,265,667,467	1,265,667,467
Debt instruments measured at amortised cost			201,650,435	201,650,435
Financial assets - at fair value through Other Comprehensive Income(OCI)				
Equity instruments at fair value through OCI	-	1,179,922	-	1,179,922
Debt instruments at fair value through OCI	-	4,731,261	-	4,731,261
<b>Total financial assets</b>	<b>55,215,819</b>	<b>5,911,183</b>	<b>1,613,331,778</b>	<b>1,674,458,780</b>
<b>LIABILITIES</b>	<b>FVTPL<sup>2</sup></b>		<b>AC<sup>6</sup></b>	<b>Total</b>
Due to banks	-		138,031,420	138,031,420
Derivative Financial Instruments	2,512,205		-	2,512,205
Due to other customers	-		1,422,961,240	1,422,961,240
Other Borrowings	-		35,575,554	35,575,554
Subordinated term debts	-		12,533,904	12,533,904
<b>Total financial liabilities</b>	<b>2,512,205</b>		<b>1,609,102,118</b>	<b>1,611,614,323</b>

## Bank - 2017

ASSETS	HFT	FVTPL <sup>2</sup>	HTM <sup>4</sup>	L&R <sup>1</sup>	AFS <sup>3</sup>	Total
Cash and cash equivalents	-	-	-	68,958,012	-	68,958,012
Balances with Central Bank	-	-	-	65,689,278	-	65,689,278
Placements with Banks	-	-	-	13,458,639	-	13,458,639
Derivative Financial Instruments	-	334,230	-	-	-	334,230
Financial assets held-for-trading	53,042,557	-	-	-	-	53,042,557
Loans and receivables to banks	-	-	-	86,097,515	-	86,097,515
Loans and receivables to other customers	-	-	-	1,012,642,714	-	1,012,642,714
Financial investments	-	-	112,351,039	-	3,415,344	115,766,383
<b>Total financial assets</b>	<b>53,042,557</b>	<b>334,230</b>	<b>112,351,039</b>	<b>1,246,846,158</b>	<b>3,415,344</b>	<b>1,415,989,328</b>
LIABILITIES		FVTPL <sup>2</sup>		AC <sup>6</sup>		Total
Due to banks		-		80,676,350		80,676,350
Derivative Financial Instruments		273,975		-		273,975
Due to other customers		-		1,244,002,768		1,244,002,768
Other Borrowings		-		24,380,962		24,380,962
Subordinated term debts		-		12,531,728		12,531,728
<b>Total financial liabilities</b>		<b>273,975</b>		<b>1,361,591,808</b>		<b>1,361,865,783</b>

<sup>1</sup> Loans & Receivables<sup>2</sup> Fair Value Through Profit or Loss<sup>3</sup> Available For Sale<sup>4</sup> Held to Maturity<sup>5</sup> Not Applicable<sup>6</sup> Amortised Cost<sup>7</sup> Fair Value Through Other Comprehensive Income

## NOTES TO THE FINANCIAL STATEMENTS

## 17.2 Group - 2018

ASSETS	FVTPL <sup>2</sup>	FVOCI <sup>7</sup>	AC <sup>6</sup>	Total
Cash and cash equivalents	-	-	58,835,090	58,835,090
Balances with Central Bank	-	-	51,615,796	51,615,796
Placements with Banks	-	-	9,096,252	9,096,252
Derivative Financial Instruments	1,163,384	-	-	1,163,384
Financial assets - at fair value through profit or loss	54,300,238	-	-	54,300,238
Financial assets - at amortised cost				
Loans and receivables to banks	-	-	32,551,657	32,551,657
Loans and receivables to other customers	-	-	1,415,927,536	1,415,927,536
Debt instruments measured at amortised cost			209,696,173	209,696,173
Financial assets - at fair value through Other Comprehensive Income(OCI)				
Equity instruments at fair value through OCI	-	1,179,956	-	1,179,956
Debt instruments at fair value through OCI	-	4,756,298	-	4,756,298
<b>Total financial assets</b>	<b>55,463,622</b>	<b>5,936,254</b>	<b>1,777,722,504</b>	<b>1,839,122,380</b>
LIABILITIES	FVTPL <sup>2</sup>		AC <sup>6</sup>	Total
Due to banks	-		172,247,861	172,247,861
Derivative Financial Instruments	2,512,205		-	2,512,205
Due to other customers	-		1,495,326,489	1,495,326,489
Other Borrowings	-		35,082,488	35,082,488
Subordinated term debts	-		33,084,526	33,084,526
<b>Total financial liabilities</b>	<b>2,512,205</b>		<b>1,735,741,364</b>	<b>1,738,253,569</b>

## Group- 2017

ASSETS	HFT	FVTPL <sup>2</sup>	HTM <sup>4</sup>	L&R <sup>1</sup>	AFS <sup>3</sup>	Total
Cash and cash equivalents	-	-	-	69,675,003	-	69,675,003
Balances with Central Banks	-	-	-	65,689,278	-	65,689,278
Placements with Banks	-	-	-	18,944,087	-	18,944,087
Derivative Financial Instruments	-	334,230	-	-	-	334,230
Financial assets held-for-trading	53,354,989	-	-	-	-	53,354,989
Loans and receivables to banks	-	-	-	86,436,113	-	86,436,113
Loans and receivables to other customers	-	-	-	1,143,766,774	-	1,143,766,774
Financial investments	-	-	117,137,814	-	4,483,905	121,621,719
<b>Total financial assets</b>	<b>53,354,989</b>	<b>334,230</b>	<b>117,137,814</b>	<b>1,384,511,255</b>	<b>4,483,905</b>	<b>1,559,822,193</b>
LIABILITIES		FVTPL <sup>2</sup>		AC <sup>6</sup>		Total
Due to banks		-		100,628,552		100,628,552
Derivative Financial Instruments		273,975		-		273,975
Due to other customers		-		1,305,625,750		1,305,625,750
Other Borrowings		-		33,634,482		33,634,482
Subordinated term debts		-		32,447,923		32,447,923
<b>Total financial liabilities</b>		<b>273,975</b>		<b>1,472,336,707</b>		<b>1,472,610,682</b>

<sup>1</sup> Loans & Receivables<sup>3</sup> Available For Sale<sup>5</sup> Not Applicable<sup>7</sup> Fair Value Through Other Comprehensive Income<sup>2</sup> Fair Value Through Profit or Loss<sup>4</sup> Held to Maturity<sup>6</sup> Amortised Cost

## NOTES TO THE FINANCIAL STATEMENTS

## 18. CASH AND CASH EQUIVALENTS

## ACCOUNTING POLICY

Cash and Cash Equivalents include cash in hand, balances with banks, money at call & at short notice and standing lending facility of Central Bank of Sri Lanka. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position

As at 31 December	Note	BANK		GROUP	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
<b>18.1 Cash</b>					
Cash in Hand		50,383,325	37,378,183	51,167,849	38,007,696
		50,383,325	37,378,183	51,167,849	38,007,696
<b>18.2 Cash Equivalents</b>					
Cash at Banks		2,200,001	4,568,707	2,370,634	4,656,185
Money at call and short notice		-	6,323,768	-	6,323,768
CBSL Standing Lending Facility		5,301,165	20,687,354	5,301,165	20,687,354
		7,501,166	31,579,829	7,671,799	31,667,307
Less : Allowance for Expected credit losses	18.4	(4,558)	-	(4,558)	-
		7,496,608	31,579,829	7,667,241	31,667,307
<b>Total Cash and Cash Equivalents</b>		<b>57,879,933</b>	<b>68,958,012</b>	<b>58,835,090</b>	<b>69,675,003</b>

## 18.3 Analysis of Cash Equivalents based on Exposure to Credit Risk

## BANK

As at 31 December	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Cash at Banks	2,025,271	174,731	-	2,200,001	4,568,707
Money at call and short notice	-	-	-	-	6,323,768
CBSL Standing Lending Facility	5,301,165	-	-	5,301,165	20,687,354
<b>Total</b>	<b>7,326,436</b>	<b>174,731</b>	<b>-</b>	<b>7,501,166</b>	<b>31,579,829</b>

## GROUP

As at 31 December	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Cash at Banks	2,195,904	174,731	-	2,370,634	4,656,185
Money at call and short notice	-	-	-	-	6,323,768
CBSL Standing Lending Facility	5,301,165	-	-	5,301,165	20,687,354
<b>Total</b>	<b>7,497,069</b>	<b>174,731</b>	<b>-</b>	<b>7,671,799</b>	<b>31,667,307</b>



**18.4 Allowance for Expected credit losses (ECL) - Cash Equivalents**

BANK	2018 RS.000			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01st January 2018	5,804	1,705	-	7,508
Gross Charge/(Reversal) for the year	(5,493)	2,543	-	(2,950)
ECL allowance as at 31st December 2018	311	4,248	-	4,558

GROUP	2018 RS.000			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01st January 2018	5,804	1,705	-	7,508
Gross Charge/(Reversal) for the year	(5,493)	2,543	-	(2,950)
ECL allowance as at 31st December 2018	311	4,248	-	4,558

**19. BALANCES WITH CENTRAL BANK OF SRI LANKA**
**ACCOUNTING POLICY**

The Balance with the Central Bank of Sri Lanka in the Statutory Cash Reserve is 6% (7.5% in 2017) of Rupee deposit liabilities. This is a non interest bearing balance. A similar reserve is not required in respect of Foreign Currency Deposits Liabilities in the Domestic Banking Unit and Deposit Liabilities in the Off-Shore Banking Unit.

As at 31 December	BANK		GROUP	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Statutory balances with Central Bank of Sri Lanka	51,615,796	65,689,278	51,615,796	65,689,278
	51,615,796	65,689,278	51,615,796	65,689,278

**20 PLACEMENTS WITH BANKS**
**ACCOUNTING POLICY**

Placements with banks include Money Market placements and fixed deposits that are subject to an insignificant risk of changes in the fair value and are used by the group in managing its short term commitments. These balances are carried at amortised cost in the Statement of Financial Position.

As at 31 December	Note	BANK		GROUP	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Placements		4,351,299	13,458,639	4,351,299	13,458,639
Fixed Deposits		-	-	4,745,526	5,485,448
		4,351,299	13,458,639	9,096,825	18,944,087
Less : Allowance for Expected credit losses	20.2	(573)	-	(573)	-
<b>Total</b>		<b>4,350,726</b>	<b>13,458,639</b>	<b>9,096,252</b>	<b>18,944,087</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 20.1 Analysis of Placements with Banks based on Exposure to Credit Risk

BANK As at 31 December	2018 Rs.000				2017 Rs.000
	Stage 1	Stage 2	Stage 3	Total	Total
Placements	4,351,299	-	-	4,351,299	13,458,639
Fixed Deposits	-	-	-	-	-
<b>Total</b>	<b>4,351,299</b>	<b>-</b>	<b>-</b>	<b>4,351,299</b>	<b>13,458,639</b>

GROUP As at 31 December	2018 Rs.000				2017 Rs.000
	Stage 1	Stage 2	Stage 3	Total	Total
Placements	4,351,299	-	-	4,351,299	13,458,639
Fixed Deposits	4,745,526	-	-	4,745,526	5,485,448
<b>Total</b>	<b>9,096,825</b>	<b>-</b>	<b>-</b>	<b>9,096,825</b>	<b>18,944,087</b>

## 20.2 Allowance for Expected credit losses (ECL) - Placements with Banks

BANK	2018 RS.000			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01st January 2018	6,170	-	-	6,170
Gross Charge/(Reversal) for the year	(5,598)	-	-	(5,598)
<b>ECL allowance as at 31st December 2018</b>	<b>573</b>	<b>-</b>	<b>-</b>	<b>573</b>

GROUP	2018 RS.000			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01st January 2018	6,170	-	-	6,170
Gross Charge/(Reversal) for the year	(5,598)	-	-	(5,598)
<b>ECL allowance as at 31st December 2018</b>	<b>573</b>	<b>-</b>	<b>-</b>	<b>573</b>

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

**ACCOUNTING POLICY**

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable, and typically comprise of instruments such as swaps, forward rate agreements, futures and options.

All derivatives are recognised in the balance sheet at fair value and are classified as Fair Value through profit or loss except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is re measured at fair value throughout the life of the contract.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The table below shows the fair values of derivative Financial instruments of the Bank / Group, recorded as assets or liabilities, together with their notional amounts.

## 21.1 Foreign Currency derivatives - Assets

	BANK				GROUP			
	2018		2017		2018		2017	
	Assets Rs.000	Notional Amount Rs.000	Assets Rs.000	Notional Amount Rs.000	Assets Rs.000	Notional Amount Rs.000	Assets Rs.000	Notional Amount Rs.000
Currency Swaps								
Sales	707	1,603,430	325,846	18,224,912	707	1,603,430	325,846	18,224,912
Purchases	967,052	12,721,646	4,231	2,422,890	967,052	12,721,646	4,231	2,422,890
Forward Foreign exchange Contracts								
Sales	203	620,719	1,723	1,588,867	203	620,719	1,723	1,588,867
Purchases	195,422	3,609,301	2,430	1,419,081	195,422	3,609,301	2,430	1,419,081
<b>Total</b>	<b>1,163,384</b>	<b>18,555,097</b>	<b>334,230</b>	<b>23,655,751</b>	<b>1,163,384</b>	<b>18,555,097</b>	<b>334,230</b>	<b>23,655,751</b>

## 21.2 Foreign Currency derivatives - Liabilities

	BANK				GROUP			
	2018		2017		2018		2017	
	Liability Rs.000	Notional Amount Rs.000	Liability Rs.000	Notional Amount Rs.000	Liability Rs.000	Notional Amount Rs.000	Liability Rs.000	Notional Amount Rs.000
Currency Swaps								
Sales	2,226,068	60,174,004	2,610	693,857	2,226,068	60,174,004	2,610	693,857
Purchases	2,377	4,236,269	243,113	12,395,844	2,377	4,236,269	243,113	12,395,844
Forward Foreign exchange Contracts								
Sales	283,564	11,566,672	925	486,306	283,564	11,566,672	925	486,306
Purchases	197	372,216	27,328	2,133,085	197	372,216	27,328	2,133,085
<b>Total</b>	<b>2,512,205</b>	<b>76,349,162</b>	<b>273,975</b>	<b>15,709,093</b>	<b>2,512,205</b>	<b>76,349,162</b>	<b>273,975</b>	<b>15,709,093</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 22. OTHER FINANCIAL ASSETS HELD-FOR-TRADING

**ACCOUNTING POLICY**

Financial Assets -Held for trading include debt securities and equities that have been acquired principally for the purpose of trading in the short term. Details are given under note No. 5.6.1 to these financial Statements . [ Sri Lanka Accounting Standard – LKAS 39 – “ Financial Instruments: Recognition and Measurement”]

As at 31 December	Note	BANK		GROUP	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Sri Lanka government securities	22.1	-	50,133,681	-	50,133,681
Equity securities	22.2	-	311,655	-	624,087
Unit Trusts	22.3	-	2,519,075	-	2,519,075
Debt securities		-	78,146	-	78,146
		-	53,042,557	-	53,354,989
<b>22.1 Sri Lanka government securities</b>					
Treasury Bills		-	45,991,016	-	45,991,016
Treasury Bonds		-	4,142,665	-	4,142,665
		-	50,133,681	-	50,133,681

**22.2 Equity securities****22.2.1 Equity Securities - Bank**

	No of Shares /Unit	Cost 2017 Rs '000	Market Value as at 31.12.2017 Rs '000
<b>Land &amp; Property</b>			
CT land Development PLC	333	17	16
<b>Capital Goods</b>			
Access Engineering PLC	2,000,000	54,545	47,000
<b>Telecommunication Services</b>			
Dialog Axiata PLC	800,000	8,400	10,400
<b>Diversified Holdings</b>			
Expolanka Holdings PLC	6,000,000	49,777	31,800
Hayles PLC	40,679	11,800	9,804
John Keels Holdings PLC	162,149	24,633	24,079
<b>Banks, Finance &amp; Insurance</b>			
Janashakthi Insurance PLC	1,375,257	21,438	21,592
<b>Power &amp; Energy</b>			
Lanka IOC PLC	640,250	22,873	17,927
LVL Energy Fund Limited	1,561,600	15,616	15,616

	No of Shares /Unit	Cost 2017 Rs '000	Market Value as at 31.12.2017 Rs '000
<b>Manufacturing</b>			
Pelawatta Sugar PLC	58,100	1,829	-
Piramal Glass PLC	5,900,066	38,240	34,220
Teejay Lanaka PLC	100,000	3,510	3,400
Alumex PLC	1,498,732	29,969	27,727
Chevron Lubricants Lanka PLC	399,998	59,655	47,600
<b>Food, Beverage &amp; Tobacco</b>			
Renuka Agri Foods PLC	4,557,361	20,508	11,849
Melstarcop Ltd	140,000	8,299	8,330
<b>Motors</b>			
United Motors Lanka PLC	3,426	305	296
<b>Total value of the Quoted Equity Securities</b>		<b>371,412</b>	<b>311,655</b>

## 22.2.2 Equity Securities - Group

	No of Shares /Unit	Cost 2017 Rs '000	Market Value as at 31.12.2017 Rs '000
<b>Land &amp; Property</b>			
Overseas Reality (Ceylon ) PLC	101,594	2,257	1,788
CT land Development PLC	333	17	16
<b>Capital Goods</b>			
Access Engineering PLC	2,137,620	58,077	50,234
<b>Manufacturing</b>			
Alumex PLC	1,498,732	29,969	27,727
ACL Cables PLC	9,400	451	398
Chevron Lubricants Lanka PLC	399,998	59,655	47,600
Kelani Cables PLC	20,000	2,522	1,808
Pelawatta Sugar PLC	58,100	1,829	-
Piramal Glass PLC	5,900,066	38,240	34,220
Royal Ceramic Lanka PLC	30,000	3,750	3,435
Tokyo Cement PLC - Voting	50,000	3,605	3,300
Tokyo Cement PLC - Non Voting	132,000	5,926	7,788
Teejay Lanaka PLC	100,000	3,510	3,400
Textured Jersey PLC	174,983	7,201	5,949
<b>Telecommunication Services</b>			
Dialog Axiata PLC	800,000	8,400	10,400
<b>Chemicals &amp; Pharmaceuticals</b>			
CIC Holdings PLC	87,000	6,740	4,124

## NOTES TO THE FINANCIAL STATEMENTS

	No of Shares /Unit	Cost 2017 Rs '000	Market Value as at 31.12.2017 Rs '000
<b>Diversified Holdings</b>			
Aitken Spence PLC	82,800	16,287	4,521
Expolanka Holdings PLC	6,000,000	49,777	31,800
Hayles PLC	44,479	13,049	10,720
John Keels Holdings PLC	863,231	142,531	128,189
Sunshine Holdings PLC	50,500	2,800	2,879
<b>Banks, Finance &amp; Insurance</b>			
Commercial Bank PLC -Voting	452,570	22,100	61,459
Commercial Bank PLC - Non Voting	189,294	9,276	19,876
Janashakthi Insurance PLC	1,375,257	21,438	21,592
National Development Bank PLC	63,176	9,006	8,617
Nations Trust Bank PLC	395,871	26,091	30,878
Seylan Bank PLC - Voting	76,572	5,918	6,683
Seylan Bank PLC - NonVoting	113,674	3,746	6,366
People`s Leasing & Finance PLC	69,000	1,242	1,173
Vanik Incorporation PLC	61	3	-
Vallibel One PLC	350,000	8,769	6,195
<b>Food, Beverage &amp; Tobacco</b>			
Melstarcorp Ltd	440,000	17,751	26,180
Renuka Agri Foods PLC	4,557,361	20,508	11,849
<b>Hotels &amp; Travels</b>			
John Keells Hotels PLC	107,085	2,151	942
Hotel Services Ceylon PLC	43,500	1,320	587
<b>Power &amp; Energy</b>			
Lanka IOC PLC	640,250	22,873	17,927
Mackwoods Energy Limited PLC	100,000	1,400	220
LVL Energy Fund Limited	1,905,200	19,052	19,052
<b>Motors</b>			
United Mortors Lanka PLC	53,426	5,305	4,196
<b>Total value of the Quoted Equity Securities</b>		<b>654,540</b>	<b>624,087</b>

## 22.3 Investment in Unit Trusts - Bank &amp; Group

	No of Unit	Cost 2017 Rs '000	Market Value as at 31.12.2017 Rs '000
Ceybank Gilt Edge Fund	48,776,681	500,000	503,692
Ceylon Gilt Edged Fund	38,329,449	500,000	503,779
CAL Gilt Trading Fund	46,855,526	500,000	503,964
Arpico Ataraxia Sri Lanka Bond Fund	45,833,715	500,000	503,763
NDB Wealth Gilt Edged Fund	39,519,444	500,000	503,877
<b>Total Value of the Unit Trusts</b>		<b>2,500,000</b>	<b>2,519,075</b>

## 23 FINANCIAL ASSETS - AT FAIR VALUE THROUGH PROFIT OR LOSS

## ACCOUNTING POLICY

Financial Assets -At Fair Value through Profit or Loss include debt securities and equities that have been acquired principally for the purpose of trading and are measured at fair value. Details are given in the note 5.5.3. to these financial statements

As at 31 December	Note	BANK		GROUP	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Sri Lanka government securities	23.1	53,875,479	-	53,875,479	-
Equity securities	23.2	118,312	-	366,115	-
Debt securities		58,644	-	58,644	-
		54,052,435	-	54,300,238	-
<b>23.1 Sri Lanka government securities</b>					
Treasury Bills		48,380,897	-	48,380,897	-
Treasury Bonds		5,494,582	-	5,494,582	-
		53,875,479	-	53,875,479	-

## 23.2 Equity securities

## 23.2.1 Equity Securities - Bank

	No of Shares	Cost 2018 Rs '000	Market Value as at 31.12.2018 Rs '000
<b>Land &amp; Property</b>			
CT land Development PLC	555	24	16
<b>Capital Goods</b>			
Access Engineering PLC	549,740	13,104	7,751
<b>Telecommunication Services</b>			
Dialog Axiata PLC	1,000,000	11,185	10,100
<b>Diversified Holdings</b>			
Hayles PLC	80,879	21,240	15,087
John Keels Holdings PLC	75,000	10,473	11,978
Hemas Holdings	200,000	19,703	17,760
<b>Power &amp; Energy</b>			
Lanka IOC PLC	640,250	22,873	15,750
LVL Energy Fund Limited	2,305,979	22,608	19,370
<b>Manufacturing</b>			
Pelawatta Sugar PLC	58,100	1,829	-
Alumex PLC	1,498,732	29,969	20,233
<b>Motors</b>			
United Motors Lanka PLC	3,426	305	267
<b>Total value of the Quoted Equity Securities</b>		<b>153,311</b>	<b>118,312</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 23.2.2 Equity Securities - Group

	No of Shares	Cost 2018 Rs '000	Market Value as at 31.12.2018 Rs '000
<b>Land &amp; Property</b>			
CT land Development PLC	555	24	16
<b>Capital Goods</b>			
Access Engineering PLC	549,740	13,104	7,751
<b>Manufacturing</b>			
Alumex PLC	1,498,732	29,969	20,233
ACL Cables PLC	9,400	451	348
Kelani Cables PLC	20,000	2,522	1,516
Pelawatta Sugar PLC	58,100	1,829	-
Royal Ceramic Lanka PLC	19,422	2,428	1,449
Tokyo Cement PLC - Non Voting	50,000	3,605	1,260
Kattali Textile Limited	10,063	220	556
SK Trims & Industries Limited	5,042	110	510
VFS Thread Dyeing Limited	7,038	154	890
M.L. Dyeing Limited	6,040	132	392
<b>Telecommunication Services</b>			
Dialog Axiata PLC	1,000,000	11,185	10,100
<b>Chemicals &amp; Pharmaceuticals</b>			
CIC Holdings PLC	22,622	1,753	679
Silva Pharmaceutical Limited	9,194	201	605
Indo - Bangla Pharmaceutical Limited	2,945	64	200
<b>Diversified Holdings</b>			
Melstacorp Limited	50,000	1,693	2,515
Hayles PLC	80,879	21,240	15,087
John Keels Holdings PLC	325,000	49,803	51,902
Hemas Holdings	200,000	19,703	17,760
Sunshine Holdings PLC	50,921	2,825	2,740
<b>Banks, Finance &amp; Insurance</b>			
Sanasa Development Bank - PLC	2,094,012	203,382	157,051
Commercial Bank PLC - Non Voting	192,507	16,430	18,288
Nations Trust Bank PLC	3,077	214	274
Sampath Bank PLC	24	6	6
Seylan Bank PLC - Voting	78,742	6,101	6,120
Seylan Bank PLC - NonVoting	100,000	3,382	4,450
People`s Leasing & Finance PLC	69,000	1,242	1,125
Vanik Incorporation PLC	61	3	-
Vallibel One PLC	350,000	8,769	5,950



	No of Shares	Cost 2018 Rs '000	Market Value as at 31.12.2018
<b>Food, Beverage &amp; Tobacco</b>			
Distilleries Company of Sri Lanka PLC	14,814	110	239
<b>Hotels &amp; Travels</b>			
John Keells Hotels PLC	7,085	150	55
Hotel Services Ceylon PLC	<b>43,500</b>	<b>1,320</b>	<b>661</b>
<b>Power &amp; Energy</b>			
Lanka IOC PLC	640,250	22,873	15,750
LVL Energy Fund Limited	2,305,979	22,608	19,370
<b>Motors</b>			
United Motors Lanka PLC	3,426	305	267
<b>Total value of the Quoted Equity Securities</b>		<b>449,908</b>	<b>366,115</b>

#### 24. LOANS AND RECEIVABLES TO BANKS

##### ACCOUNTING POLICY

Loans and Receivables to Banks include Sri Lanka Development Bonds, Restructuring Bonds and Securities Purchased under resale agreements

From 1 January 2018, the group measures Loans and receivables to banks at amortised cost since the said instruments qualify both contractual cash flow assessment and business model assessment which has been described in Note no.5.5.1 to these financial statements.

Before 1 January 2018 also the group measured Loans and receivables to banks at amortised cost of which the detailed policies are in Note no.5.6.3 to these financial statements

As at 31 December	Note	BANK		GROUP	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Sri Lanka Development Bonds		6,462,722	40,200,667	6,462,722	40,200,667
Restructuring Bond	24.3	7,689,150	7,689,150	7,689,150	7,689,150
Securities Purchased under resale agreements		18,065,265	38,207,698	18,449,501	38,546,296
<b>Total</b>		<b>32,217,137</b>	86,097,515	<b>32,601,373</b>	86,436,113
<b>Less : Allowance for Expected credit losses</b>	24.2	<b>(49,716)</b>	-	<b>(49,716)</b>	-
		<b>32,167,421</b>	86,097,515	<b>32,551,657</b>	86,436,113

## NOTES TO THE FINANCIAL STATEMENTS

### 24.1 Analysis of Loans and Receivables to Banks based on Exposure to Credit Risk

As at 31 December BANK	2018 Rs.000				2017 Rs.000
	Stage 1	Stage 2	Stage 3	Total	Total
Sri Lanka Development Bonds	6,462,722	-	-	6,462,722	40,200,667
Restructuring Bond	7,689,150	-	-	7,689,150	7,689,150
Securities Purchased under resale agreements	18,065,265	-	-	18,065,265	38,207,698
<b>Total</b>	<b>32,217,137</b>	<b>-</b>	<b>-</b>	<b>32,217,137</b>	<b>86,097,515</b>

As at 31 December GROUP	2018 Rs.000				2017 Rs.000
	Stage 1	Stage 2	Stage 3	Total	Total
Sri Lanka Development Bonds	6,462,722	-	-	6,462,722	40,200,667
Restructuring Bond	7,689,150	-	-	7,689,150	7,689,150
Securities Purchased under resale agreements	18,449,501	-	-	18,449,501	38,546,296
<b>Total</b>	<b>32,601,373</b>	<b>-</b>	<b>-</b>	<b>32,601,373</b>	<b>86,436,113</b>

### 24.2 Allowance for Expected credit losses (ECL) - Loans and Receivables to Banks

BANK	2018 RS.000			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01st January 2018	217,071	-	-	217,071
Gross Charge/(Reversal) for the year	(167,355)	-	-	(167,355)
<b>ECL allowance as at 31st December 2018</b>	<b>49,716</b>	<b>-</b>	<b>-</b>	<b>49,716</b>

GROUP	2018 RS.000			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01st January 2018	217,071	-	-	217,071
Gross Charge/(Reversal) for the year	(167,355)	-	-	(167,355)
<b>ECL allowance as at 31st December 2018</b>	<b>49,716</b>	<b>-</b>	<b>-</b>	<b>49,716</b>

**24.3 Government of Sri Lanka Restructuring Bonds**

**24.3.a.** In April 1993, The Bank received restructuring bonds amounting to Rs. 10,541 Million, from the Government of Sri Lanka(GOSL) for the following purposes:

Rs. Million		
(i)	1,152.00	To Achieve the capital adequacy requirement in accordance with CBSL Guidelines
(ii)	1,700.50	To write off loans granted to sri lanka state plantations corporation and paddy marketing board for Rs. 1,467 million and Rs. 233.5 million respectively
(iii)	4,355.00	To Finance pension liabilities
(iv)	3,231.00	To Provide for loan loss provision
(v)	102.50	For loans to be transferred to Special Recovery Unit (RACA)
	10,541.00	

**24.3.b.** The above value of Bonds granted by GOSL effectively relates to accounting entries that were booked to clear carrying values of advances granted under State recommendation, which were deemed as irrecoverable.

**24.3.c.** The agreement underlying the granting of these Bonds, stipulates the following

- a. A tenor of 30 years, where the Bonds could be redeemed through the recovery of any of the specific loan losses for which the Bonds were issued.  
As at Statement of Financial Position date, no recoveries have been made of those specific loan losses.
- b. As per the initial agreement an interest rate of 12% p.a. would apply, with half yearly payment of interest.
- c. A value of 25% of income derived from (b) above would be refunded to the GOSL annually.

**24.3.d.** As indicated in 24.3.a sum of Rs. 4,355 Mn of this tranche of Bonds was assigned to the Pension Fund (Rs. 3,218 Mn) and to the W & OP Fund (Rs. 1,137 Mn).

Accordingly, the carrying balance of Bonds reflected on the Statement of Financial Position does not include the value assigned to the Pension Fund, which is managed as an independent Trust Fund.

**24.3.e.** The financial implications of these Bonds in year 2018 are as follows

- a. A value of Rs. 7,689 Mn. is reflected on the Statement of Financial Position as Loans and Receivables to Banks.
- b. "A value of Rs. 879 Mn. is received during the year as income and is reflected under Interest Income

## NOTES TO THE FINANCIAL STATEMENTS

## 25 LOANS AND RECEIVABLES TO OTHER CUSTOMERS

**ACCOUNTING POLICY**

Loans and Receivables to Other Customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- ◆ Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- ◆ Those that the Bank, upon initial recognition, designates as available for sale
- ◆ Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration

From 1 January 2018, the group measures Loans and receivables to other customers at amortised cost since 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.

Before 1 January 2018 also the group measured Loans and Receivables to Other Customers at amortised cost of which the detailed policies are in Note no.5.6.3 to these financial statements

As at 31 December	Note	BANK		GROUP	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Gross loans and receivables	25.1	1,334,420,260	1,074,247,652	1,489,920,155	1,209,116,267
Stage 1		1,161,047,596	-	1,263,103,798	-
Stage 2		41,531,752	-	85,809,125	-
Stage 3		131,840,912	-	141,007,232	-
<b>Less :</b>					
Allowance for Expected credit losses/ Impairment losses	25.3	(68,752,793)	-	(73,992,619)	-
Individual impairment	25.4	(47,680,508)	(44,913,498)	(48,341,773)	(45,672,491)
Collective impairment	25.5	(21,072,285)	(16,691,440)	(25,650,846)	(19,677,002)
<b>Net loans and receivables</b>		<b>1,265,667,467</b>	<b>1,012,642,714</b>	<b>1,415,927,536</b>	<b>1,143,766,774</b>
<b>25.1 Analysis</b>					
<b>By product</b>					
Bills of Exchange		2,579,297	1,674,810	2,579,297	1,674,810
Overdrafts		129,201,088	117,634,482	125,695,631	116,161,035
Trade finance		280,775,319	141,032,176	280,775,319	141,032,176
Credit Cards		2,883,268	2,212,132	2,883,268	2,212,132
Pawning		149,825,847	136,475,059	149,935,284	136,532,611
Staff loans	25.1.1	16,964,229	16,284,225	17,692,469	16,840,916
Short-term Loans		154,013,828	110,772,777	154,013,828	110,772,777
Long-term Loans		597,838,146	546,746,227	654,198,261	588,771,843
Securities Purchased under resale agreement		-	80,059	-	80,059
Lease Rental Receivable		-	-	95,132,968	89,423,716
Others		339,238	1,335,705	7,013,830	5,614,191
<b>Gross Total</b>		<b>1,334,420,260</b>	<b>1,074,247,652</b>	<b>1,489,920,155</b>	<b>1,209,116,267</b>

25.1.1 Staff loans (net)

As at 31 December	Note	BANK		GROUP	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Staff loans		26,570,230	25,872,113	27,298,470	26,428,804
(Less) : Allowance for Day One Difference		(9,606,001)	(9,587,888)	(9,606,001)	(9,587,888)
Net Staff Loans		16,964,229	16,284,225	17,692,469	16,840,916
<b>By currency</b>					
Sri Lankan Rupee		1,035,990,955	911,926,634	1,191,490,850	1,046,795,249
United States Dollar		292,607,715	157,625,273	292,607,715	157,625,273
Great Britain Pound		27,114	-	27,114	-
Others		5,794,476	4,695,746	5,794,476	4,695,746
Gross Total		1,334,420,260	1,074,247,652	1,489,920,155	1,209,116,267
<b>By industry</b>					
Agriculture and Fishing		116,305,697	119,026,169	139,051,089	124,684,524
Manufacturing		33,709,368	29,332,963	38,778,792	30,889,241
Tourism		18,871,319	13,986,681	21,952,474	14,853,616
Transport		52,102,323	44,296,601	78,472,488	57,946,324
Construction		364,887,130	325,405,039	375,260,816	330,731,092
Traders		131,213,514	94,668,761	152,499,042	108,258,326
New Economy		10,229,477	10,017,453	10,229,477	10,017,453
Others		607,101,432	437,513,985	673,675,977	531,735,691
Gross Total		1,334,420,260	1,074,247,652	1,489,920,155	1,209,116,267

25.2 Movement in Total impairment Allowance for loans & Receivables

	BANK		GROUP	
	2018 Rs.000	2017 Rs.000	2,018 Rs.000	2017 Rs.000
Opening balance as at 01st January	61,604,938	60,295,848	65,349,493	62,526,860
Impact of adopting SLFRS 9 as at 1st January 2018	(1,716,522)	-	(1,134,140)	-
Net Charge/(Reversal) for the year	8,461,053	1,348,460	9,373,940	2,862,003
Write off during the year	(160,306)	(104,512)	(160,306)	(104,512)
Exchange rate variance on foreign currency provisions	563,631	65,142	563,631	65,142
Closing balance as at 31st December	68,752,793	61,604,938	73,992,619	65,349,493

## NOTES TO THE FINANCIAL STATEMENTS

## 25.3 Movement in Total Impairment Allowance for Expected Credit Loss [ ECL ] based on exposure to credit risk

BANK	2018 RS.000			
	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01st January	2,844,135	1,101,605	55,942,676	59,888,416
Net Charge/(Reversal) for the year	2,266,110	650,967	5,543,976	8,461,053
Amounts written off	-	-	(160,306)	(160,306)
Exchange rate variance on foreign currency provisions	-	-	563,631	563,631
<b>Closing balance as at 31st December</b>	<b>5,110,245</b>	<b>1,752,572</b>	<b>61,889,977</b>	<b>68,752,793</b>

GROUP	2018 RS.000			
	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01st January	3,525,728	1,743,846	58,945,780	64,215,354
Net Charge/(Reversal) for the year	2,123,605	742,346	6,507,989	9,373,940
Amounts written off	-	-	(160,306)	(160,306)
Exchange rate variance on foreign currency provisions	-	-	563,631	563,631
<b>Closing balance as at 31st December</b>	<b>5,649,333</b>	<b>2,486,192</b>	<b>65,851,094</b>	<b>73,992,619</b>

## 25.4 Movements in Individual Impairment during the Year

	BANK		GROUP	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Opening balance as at 01st January	44,913,498	43,589,172	45,672,491	44,124,522
Net Charge/(Reversal) for the Year	2,767,010	1,324,326	2,669,282	1,547,969
<b>Closing balance as at 31st December</b>	<b>47,680,508</b>	<b>44,913,498</b>	<b>48,341,773</b>	<b>45,672,491</b>

## 25.5 Movements in Collective Impairment during the Year

	BANK		GROUP	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Opening balance as at 01st January	16,691,440	16,706,676	19,677,002	18,402,338
Impact of adopting SLFRS 9 as at 1st January 2018	(1,716,522)	-	(1,134,140)	-
Net Charge/(Reversal) for the Year	5,694,043	24,134	6,704,658	1,314,034
Write off during the year	(160,306)	(104,512)	(160,306)	(104,512)
Exchange rate variance on foreign currency provisions	563,631	65,142	563,631	65,142
<b>Closing balance as at 31st December</b>	<b>21,072,285</b>	<b>16,691,440</b>	<b>25,650,846</b>	<b>19,677,002</b>

## 26. DEBT INSTRUMENTS MEASURED AT AMORTISED COST

**ACCOUNTING POLICY**

Investments in debt instruments are measured at amortised cost where they have:

- ◆ Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- ◆ Are held within a business model whose objective is achieved by holding to collect contractual cash flows.

As at 31 December	BANK		GROUP	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Sri Lanka Government Securities				
Treasury Bills	67,807,059	-	75,827,603	-
Treasury Bonds	133,843,376	-	133,868,570	-
<b>Total</b>	<b>201,650,435</b>	<b>-</b>	<b>209,696,173</b>	<b>-</b>
Less : Allowance for Expected credit losses	-	-	-	-
	<b>201,650,435</b>	<b>-</b>	<b>209,696,173</b>	<b>-</b>

## 26.1 Analysis of Debt instruments measured at amortised cost based on Exposure to Credit Risk

BANK	2018 RS.000			Total
	Stage 1	Stage 2	Stage 3	
Sri Lanka Government Securities				
Treasury Bills	67,807,059	-	-	67,807,059
Treasury Bonds	133,843,376	-	-	133,843,376
<b>Total</b>	<b>201,650,435</b>	<b>-</b>	<b>-</b>	<b>201,650,435</b>

GROUP	2018 RS.000			Total
	Stage 1	Stage 2	Stage 3	
Sri Lanka Government Securities				
Treasury Bills	75,827,603	-	-	75,827,603
Treasury Bonds	133,868,570	-	-	133,868,570
<b>Total</b>	<b>209,696,173</b>	<b>-</b>	<b>-</b>	<b>209,696,173</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 27. FINANCIAL INVESTMENTS - HELD-TO-MATURITY

**ACCOUNTING POLICY**

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. For detailed policies refer note 5.6.4 to these financial statements. [ Sri Lanka Accounting Standard – LKAS 39 – “ Financial Instruments: Recognition and Measurement”]

As at 31 December	BANK		GROUP	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Sri Lanka Government Securities				
Treasury Bills	-	-	-	4,762,027
Treasury Bonds	-	112,351,039	-	112,375,787
Total Held-to-Maturity Investments	-	112,351,039	-	117,137,814

## 28. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OCI

**ACCOUNTING POLICY**

Investment in equity instruments that are neither held for trading nor contingent consideration recognized by the Group in a business combination to which Sri Lanka Accounting Standard - SLFRS 3 - “Business Combinations” applies, are measured at fair value through other comprehensive income. Detailed accounting policies are in note 5.5.2 to these financial statements.

As at 31 December	Note	BANK		GROUP	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Equity securities - Un quoted	28.1	671,881	-	671,915	-
Equity securities - Quoted	28.2	508,041	-	508,041	-
		1,179,922	-	1,179,956	-

## 28.1 Equity securities -Un Quoted

## 28.1.1 Bank

Name	No of Shares 31.12.2018	Fair value as at 31.12.2018 Rs.000	Cost as at 31.12.2018 Rs.000
Society for Worldwide Inter Bank Fund Transfer	14	1,168	1,168
Regional Development Bank	16,448,448	498,566	162,300
Lanka Financial Services Bureau	225,000	369	2,250
Fitch Rating Lanka Ltd	62,500	625	625
Lanka Clear (Pvt) Ltd	2,100,000	21,000	21,000
Megpeck Limited	125,000	-	-
National Equity Fund	5,112,735	142,134	175,469
		671,881	413,527



## 28.1.2 Group

Name	No of Shares 31.12.2018	Fair value as at 31.12.2018 Rs.000	Cost as at 31.12.2018 Rs.000
Credit Information Bureau of Sri Lanka	47,400	8,052	50,715
Society for Worldwide Inter Bank Fund Transfer	14	1,168	1,168
Regional Development Bank	16,448,448	498,566	162,300
Lanka Financial Services Bureau	225,000	369	2,250
Fitch Rating Lanka Ltd	62,500	625	625
Lanka Clear (Pvt) Ltd	2,100,000	21,000	21,000
Megpeck Limited	125,000	-	-
National Equity Fund	5,112,735	142,134	176,384
		671,915	414,442

## 28.2 Equity securities - Quoted

## 28.2.1 Bank

Name	No of Shares 31.12.2018	Fair value as at 31.12.2018 Rs.000	Cost as at 31.12.2018 Rs.000
Overseas Reality (Ceylon) PLC	30,538,203	503,880	518,963
The Finance PLC	2,080,400	4,161	83,400
		508,041	602,363

## 28.2.2 Group

Name	No of Shares 31.12.2018	Fair value as at 31.12.2018 Rs.000	Cost as at 31.12.2018 Rs.000
Overseas Reality (Ceylon) PLC	30,538,203	503,880	518,963
The Finance PLC	2,080,400	4,161	83,400
		508,041	602,363

## NOTES TO THE FINANCIAL STATEMENTS

## 29. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OCI

**ACCOUNTING POLICY**

Investments in debt instruments are measured at amortised cost where they have:

◆ Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and

◆ Are held within a business model whose objective is achieved by holding and selling to collect contractual cash flows.

Detailed policies are given under note 5.5.2 to these financial statements

As at 31 December	BANK		GROUP	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Sri Lanka Government Securities	1,680,310	-	1,705,347	-
Debt securities	3,050,951	-	3,050,951	-
<b>Total</b>	<b>4,731,261</b>	<b>-</b>	<b>4,756,298</b>	<b>-</b>

## 29.1 Analysis of Debt instruments at fair value through OCI based on Exposure to Credit Risk

As At 31 December BANK	2018 RS.000			
	Stage 1	Stage 2	Stage 3	Total
Sri Lanka Government Securities	1,680,310	-	-	1,680,310
Debt securities	2,784,879	266,072	-	3,050,951
<b>Total</b>	<b>4,465,189</b>	<b>266,072</b>	<b>-</b>	<b>4,731,261</b>

As At 31 December GROUP	2018 RS.000			
	Stage 1	Stage 2	Stage 3	Total
Sri Lanka Government Securities	1,705,347	-	-	1,705,347
Debt securities	2,784,879	266,072	-	3,050,951
<b>Total</b>	<b>4,490,226</b>	<b>266,072</b>	<b>-</b>	<b>4,756,298</b>

## 29.2 Allowance for Expected credit losses (ECL) - Debt instruments at fair value through OCI

BANK	2018 RS.000			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 01st January 2018	1,893	-	-	1,893
Gross Charge/(Reversal) for the year	(1,097)	6,564	-	5,467
<b>ECL allowance as at 31st December 2018</b>	<b>795</b>	<b>6,564</b>	<b>-</b>	<b>7,360</b>

GROUP	2018			Total
	Stage 1	Stage 2	Stage 3	
	RS.000			
ECL allowance as at 01st January 2018	1,893	-	-	1,893
Gross Charge/(Reversal) for the year	(1,097)	6,564	-	5,467
ECL allowance as at 31st December 2018	795	6,564	-	7,360

### 30. FINANCIAL INVESTMENTS-AVAILABLE-FOR-SALE

#### ACCOUNTING POLICY

Available-for-sale financial assets are non-derivative financial assets that are designated as available- for-sale and that are not classified in any of the other categories. Detailed policies are in note 5.6.2 to these financial statements. [ Sri Lanka Accounting Standard – LKAS 39 – “ Financial Instruments: Recognition and Measurement”]

As at 31 December	Note	BANK		GROUP	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Equity securities - Un quoted	30.1	-	614,071	-	614,104
Equity securities - Quoted	30.2	-	548,290	-	755,804
Sri Lanka Governmet Securities		-	318	-	861,332
Debt securities		-	2,252,665	-	2,252,665
Total Available-for-sale Investments		-	3,415,344	-	4,483,905

#### 30.1 Equity securities -Un Quoted

##### 30.1.1 Bank

Name	No of Shares 31.12.2017	Fair value as at 31.12.2017 Rs.000	Cost as at 31.12.2017 Rs.000
Credit Information Bureau of Sri Lanka	47,400	8,018	50,715
Society for Worldwide Inter Bank Fund Transfer	14	1,168	1,168
Regional Development Bank	16,448,448	403,005	162,300
Lanka Financial Services Bureau	225,000	2,178	2,250
Fitch Rating Lanka Ltd	62,500	625	625
Lanka Clear (Pvt) Ltd	2,100,000	21,000	21,000
Megpeck Limited	125,000	-	-
National Eqity Fund	5,112,735	178,077	177,156
		614,071	415,214

## NOTES TO THE FINANCIAL STATEMENTS

### 30.1.2 Group

Name	No of Shares 31.12.2017	Fair value as at 31.12.2017 Rs.000	Cost as at 31.12.2017 Rs.000
Credit Information Bureau of Sri Lanka	47,500	8,051	50,748
Society for Worldwide Inter Bank Fund Transfer	14	1,168	1,168
Regional Development Bank	16,448,448	403,005	162,300
Lanka Financial Services Bureau	225,000	2,178	2,250
Fitch Rating Lanka Ltd	62,500	625	625
Lanka Clear (Pvt) Ltd	2,100,000	21,000	21,000
Magpeck Limited	125,000	-	-
National Equity Fund	5,112,735	178,077	177,156
		614,104	415,247

### 30.2 Equity securities - Quoted

#### 30.2.1 Bank

Name	No of Shares 31.12.2017	Fair value as at 31.12.2017 Rs.000	Cost as at 31.12.2017 Rs.000
Overseas Reality (Ceylon) PLC	30,538,203	537,472	518,963
The Finance PLC	2,080,400	10,818	83,400
		548,290	602,363

#### 30.2.2 Group

Name	No of Shares 31.12.2017	Fair value as at 31.12.2017 Rs.000	Cost as at 31.12.2017 Rs.000
Overseas Reality (Ceylon) PLC	30,538,203	537,472	518,963
The Finance PLC	2,080,400	10,818	83,400
Sanasa Development bank PLC	2,036,446	207,514	197,253
		755,804	799,616

## 31. INVESTMENTS IN SUBSIDIARIES

**ACCOUNTING POLICY**

Subsidiaries are entities that are controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect the returns of those investees through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- ◆ power over the investee
- ◆ exposure or rights to variable returns from its involvement with the investee
- ◆ the ability to use its power over the investee to affect its returns

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences, until the date that control ceases. Where Subsidiaries have been sold or acquired during the year, assets, liabilities, income and expenses of the said subsidiary are included in the consolidated financial statements, from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of Group are eliminated in full on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets of the subsidiaries, not owned directly or indirectly by the Bank. The non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity holders of the Bank. Non-controlling interests in the profit or loss of the Group, is disclosed separately in the consolidated statement of profit or loss.

A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction. Upon the loss of control, the Group de-recognizes the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control, is recognised in the statement of changes in equity. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

The Bank's investments in subsidiaries are carried at cost in the separate financial statements.

As at 31 December	Note	BANK		GROUP	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Quoted equity share	31.1	1,320,816	1,320,816	-	-
Unquoted equity share	31.2	4,950	4,950	-	-
(Less) : Impairment	31.3	(298,224)	-	-	-
Net Total		1,027,542	1,325,766	-	-

## NOTES TO THE FINANCIAL STATEMENTS

	No. of Shares	Holding % as at 31.12.2018	Cost 2018 Rs. 000	No. of Shares	Holding % as at 31.12.17	Cost 2017 Rs. 000
<b>31.1 Quoted - Equity Shares</b>						
<b>People's Leasing and Finance PLC</b>						
- Ordinary Shares	1,184,896,862	75	690,958	1,184,896,862	75	690,958
- Preference Shares	-	-	-	-	-	-
<b>People's Merchant Finance PLC</b>						
- Ordinary Shares	33,856,246	50.16	619,858	33,856,246	50.16	619,858
- Preference Shares	1,000,000		10,000	1,000,000		10,000
			1,320,816			1,320,816
<b>31.2 Un quoted - Equity Shares</b>						
People's Travels (Pvt) Ltd.	495,000	99	4,950	495,000	99	4,950
Total			4,950			4,950

**31.3 Impairment loss on People`s Merchant Finance PLC**

During 2018, the Bank recognized an impairment loss of Rs. 298,223,627 pertaining to its investment in Peoples Merchant Finance PLC on the basis of its carrying value exceeding the estimated recoverable amount. The recoverable amount being the higher of its fair value less cost of disposal and value in use. In this context, it must be pointed out that the Fair value of the said investment was derived based on the purchase consideration per share as agreed to with the prospective investor.

Forming an integral part of its restructuring exercise, People's Merchant Finance (PMF) has successfully secured a new investor for recapitalization purposes. Whilst the new capital infusion is expected to take place in the near term, it will inevitably reduce the Bank's controlling stake from 50.16% to less than 20.0% on conclusion. The said transaction is currently pending other formalities

**31.4 Investments in Subsidiaries ( Continued)****Non-controlling interests**

The following subsidiaries have material NCI.

Name	Principal Place of Business/Country of Incorporation	Operating Segment	Ownership Interest held by NCI	
			2018	2017
People`s Leasing & Finance PLC	No. 1161, Maradana Road, Colombo 08, Sri Lanka	Leasing & Finance	25.0%	25.0%
People`s Merchant Finance PLC	No, 21, Nawam Mawatha, Colombo 02, Sri Lanka	Leasing & Finance	22.1%	22.1%

The following is summarised financial information for the People's Leasing & Finance PLC prepared in accordance with SLFRS/ LKAS, modified for fair value adjustments on acquisition and differences in the Group's accounting policies. The information is before inter-company eliminations with other companies in the Group.

	People's Leasing & Finance PLC	
	2018	2017
Revenue	36,937,773	32,238,929
Profit	5,427,812	4,367,959
<b>Profit attributable to NCI</b>	<b>1,356,953</b>	1,091,990
Other comprehensive income	308,393	268,709
Total comprehensive income	5,736,205	4,636,668
<b>Total comprehensive income attributable to NCI</b>	<b>1,434,051</b>	1,159,167
Total assets	187,927,096	167,467,152
Total liabilities	(154,651,677)	(137,057,769)
Net assets	33,275,419	30,409,383
<b>Net assets attributable to NCI</b>	<b>8,318,855</b>	7,602,346
Cash flows from operating activities	(3,101,208)	16,489,767
Cash flows from investing activities	(127,720)	(1,479,604)
Cash flows from financing activities	1,730,872	(18,972,497)
Net increase in cash and cash equivalents	(1,498,056)	(3,962,334)
<b>Dividends paid to NCI during the year</b>	<b>593,707</b>	581,207

## 32 GOODWILL AND INTANGIBLE ASSETS

### ACCOUNTING POLICY

Intangible assets include all computer software costs incurred, licensed for use by the Group. Software acquired by the Group is measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight-line basis in income statement over its estimated useful life, from the date on which it is available for use.

Goodwill represents the excess of the cost of acquisition over the fair value of Group's share of the net identifiable assets of the acquired Subsidiary at the date of acquisition.

Detailed policies of good will and intangible assets are set out in the note 5.14 to these financial statements

## NOTES TO THE FINANCIAL STATEMENTS

## 32.1 Intangible Assets

As at 31 December	BANK		GROUP	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
<b>Cost</b>				
As at beginning of the year	1,230,504	1,072,424	1,443,928	1,252,205
Subsidiary acquired during the year	-	-	-	-
Additions During the year	321,788	158,080	344,424	191,723
As at end of the year	1,552,292	1,230,504	1,788,352	1,443,928
<b>Accumulated Amortisation</b>				
As at beginning of the year	1,005,446	961,910	1,181,364	1,122,427
Subsidiary acquired during the year	-	-	-	-
Additions During the year	107,329	43,536	124,614	58,937
As at end of the year	1,112,775	1,005,446	1,305,978	1,181,364
<b>Net Book Value</b>	<b>439,517</b>	<b>225,058</b>	<b>482,374</b>	<b>262,564</b>
<b>32.2 Goodwill</b>				
<b>Cost</b>				
As at beginning of the year			417,099	308,545
Goodwill on Acquisition			-	108,554
As at end of the year			417,099	417,099
<b>Accumulated Impairment</b>				
As at beginning of the year				
Impairment for the year			(30,000)	-
As at end of the year			(30,000)	-
Net Book Value			387,099	417,099
<b>Total Net Book Value</b>			<b>869,473</b>	<b>679,663</b>



## 33 PROPERTY, PLANT AND EQUIPMENT

**ACCOUNTING POLICY**

Property, plant and equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

**Cost Model**

Plant & Equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the Plant & Equipment when the cost is incurred, if the recognition criteria are met.

**Revaluation Model**

The Bank applies the revaluation model for the entire class of freehold land & buildings and leasehold building. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment charged subsequent to the date of the revaluation.

Revaluations are performed every 3 years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the revaluation reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in income statement, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in Income Statement, except that deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

**Subsequent Cost**

The cost of replacing part of an item of Property, Plant & 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 into the Group and its cost can be reliably measured.

**Restoration Cost**

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore or maintain future economic benefits is charged to Statement of Comprehensive Income as incurred.

**Capital Work-in-Progress**

These are expenses of a capital nature directly incurred in the construction of building, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost.

**Leased Assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the Sri Lanka Accounting Standard (LKAS) 17- "Leases".

**Depreciation**

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Leased assets under finance leases are depreciated over the shorter of either lease term or its useful life, which is limited to maximum tenor of 50 years. Freehold Land is not depreciated. The estimated useful lives are as follows:

Category of Asset	Period of Depreciation
Freehold Buildings	Estimated useful life
Leasehold Building	Shorter of lease term or its useful life, which is limited to maximum tenor of 50 years
Furniture, Equipment and Machinery	20% p.a.
Freehold & Leasehold Motor vehicles	25% p.a.
Prepaid Leases	Over the period of lease
Self Banking units (SBU)	Over the period of 3 Years

\* These depreciation rates are applied consistently over the period

**De recognition**

Property, Plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is derecognised.

## NOTES TO THE FINANCIAL STATEMENTS

## 33.1 Property, Plant and Equipment - Bank

	Freehold Land Rs. 000	Freehold Building Rs. 000	Leasehold Building Rs. 000	Motor Vehicles Rs. 000	Furniture Rs. 000	Machinery, Equipment & Self Banking Units Rs. 000	Computer Rs. 000	Total 31.12.2018 Rs. 000	Total 31.12.2017 Rs. 000
<b>Cost/fair value</b>									
Opening balance as at 01.01.2018	13,107,259	5,222,488	2,284,720	1,520,926	296,675	2,602,587	3,670,088	28,704,742	20,699,604
Additions	-	440,316	288,702	84,410	54,033	630,997	1,347,067	2,845,526	2,532,618
Disposals	(281)	-	-	(41,690)	-	-	-	(41,971)	-
Transfers/Adjustments	-	-	-	-	-	-	-	-	(1,555)
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-	(720,756)
Revaluation Surplus	-	-	-	-	-	-	-	-	6,194,832
<b>Closing Balance at 31.12.2018</b>	<b>13,106,978</b>	<b>5,662,804</b>	<b>2,573,422</b>	<b>1,563,646</b>	<b>350,708</b>	<b>3,233,584</b>	<b>5,017,155</b>	<b>31,508,297</b>	<b>28,704,742</b>
<b>Accumulated Depreciation</b>									
Opening balance as at 01.01.2018	-	139,137	60,485	1,155,172	185,364	1,619,475	2,113,420	5,273,057	4,817,384
Charge for the year	-	272,938	128,629	175,755	40,076	377,079	639,402	1,633,879	1,176,429
Disposals	-	-	-	(24,333)	-	-	-	(24,333)	-
Transfers/Adjustments	-	-	-	-	-	-	-	-	-
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-	(720,756)
<b>Closing Balance as at 31.12.2018</b>	<b>-</b>	<b>412,075</b>	<b>189,114</b>	<b>1,306,593</b>	<b>225,440</b>	<b>1,996,554</b>	<b>2,752,821</b>	<b>6,882,602</b>	<b>5,273,057</b>
(Less) : Impairment charges									
<b>Net book value at 31.12.2018</b>	<b>13,106,978</b>	<b>5,250,729</b>	<b>2,384,308</b>	<b>257,054</b>	<b>125,268</b>	<b>1,237,031</b>	<b>2,264,335</b>	<b>24,625,695</b>	<b>23,431,685</b>
Capital work in progress at cost								1,422,217	1,333,657
Furniture Equipment and Machinery at store					2,960	4,504	204,369	211,833	282,159
								26,259,745	25,047,501

## 33.1.1

On July 1, 2017 - the Bank carried out an independent valuation of all its land and buildings. This valuation was carried out by Messrs. KPMG (Chartered Accountants) together with Mr. Sunil Wickramarachchi (MRICS, AIV, BSc (Estate Management Valuation)) an Independent Valuer, on a market value basis. Book values of these properties were adjusted for the revalued amounts and revaluation surplus was credited accordingly to the Revaluation Reserve.

Amount Recognized in Other Comprehensive Income	6,568,522
Amount Recognized in Income Statement	(373,691)
	6,194,831

## 33.1.2

The Carrying amount of revalued assets, in the financial statements if carried at Net Book Value is as follows;

Class of Assets	Cost	Accumulated Depreciation	Net Book Value As at 31.12.2018
Freehold Land & Building	9,024,309	1,707,889	7,316,420
Leasehold Land & Building	2,516,070	1,078,372	1,437,698
	11,540,379	2,786,262	8,754,118

**33.1.3 Property Plant and Equipment Pledge as security for Liabilities**

There were no Items of Property plant and equipment pledge as securities for liabilities as at reporting date.

**33.1.4 Unobservable inputs considered in measuring fair value**

On July 1, 2017 - the Bank carried out an independent valuation of all its land and buildings. The following table depicts information about significant unobservable inputs used in measuring fair value of the assets categorised under Level 3 of the fair value hierarchy

**33.1.4.1 Bank**

Type of Asset	Fair value as at 31.12.2017 LKR'000	Valuation Technique	2017		
			Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Sensitivity of fair value to unobservable Inputs
Freehold land	13,107,259	Land Comparison	Estimated cost per perch	LKR 50,000- LKR 18,000,000	Positively correlated sensitivity
Freehold Buildings	5,083,350	1. Building depreciation replacement cost or residual value 2. Condominium properties income/rental approach	Estimated cost per square feet	LKR 100- LKR 34,900	Positively correlated sensitivity
Buildings on leasehold lands	2,224,236	Building depreciation replacement cost or residual value	Estimated cost per square feet	LKR 100- LKR 9,000	Positively correlated sensitivity

**33.1.4.2 Group**

Type of Asset	Fair value as at 31.12.2017 LKR'000	Valuation Technique	2017		
			Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Sensitivity of fair value to unobservable Inputs
Freehold land	16,963,272	Land Comparison	Estimated cost per perch	LKR 50,000- LKR 18,000,000	Positively correlated sensitivity
Freehold Buildings	8,919,672	1. Building depreciation replacement cost or residual value 2. Condominium properties income/rental approach	Estimated cost per square feet	LKR 100- LKR 34,900	Positively correlated sensitivity
Buildings on leasehold lands	2,241,607	Building depreciation replacement cost or residual value	Estimated cost per square feet	LKR 100- LKR 9,000	Positively correlated sensitivity

## NOTES TO THE FINANCIAL STATEMENTS

## 33 PROPERTY, PLANT AND EQUIPMENT

## 33.2 Property, Plant and Equipment - Group

	Freehold Land Rs. 000	Freehold Building Rs. 000	Leasehold Building Rs. 000	Motor Vehicles Rs. 000	Furniture Rs. 000	Machinery, Equipment Rs. 000	Computer Rs. 000	Total 31.12.2018 Rs. 000	Total 31.12.2017 Rs. 000
<b>Cost / Valuation</b>									
Opening balance as at 01.01.2018	16,963,272	9,058,603	2,370,483	2,147,168	807,268	3,505,021	4,339,078	39,190,894	27,293,111
Additions		490,316	288,702	145,407	91,520	688,103	1,502,113	3,206,162	2,882,103
Disposals	(281)	(116,479)		(73,508)	(1,899)	(3,768)	(1,655)	(197,590)	(112,611)
Transfers/Adjustments		484,714			4,343			489,057	800,118
Transfers from Investment Property		44,268						44,268	1,673,565
Revaluation adjustment on accumulated depreciation								-	(720,756)
Revaluation Gain								-	7,375,364
<b>Closing Balance as at 31.12.2018</b>	<b>16,962,991</b>	<b>9,961,423</b>	<b>2,659,185</b>	<b>2,219,067</b>	<b>901,232</b>	<b>4,189,356</b>	<b>5,839,536</b>	<b>42,732,791</b>	<b>39,190,894</b>
<b>Accumulated Depreciation</b>									
Opening balance as at 01.01.2018	-	138,931	128,876	1,342,883	560,976	2,200,604	2,676,708	7,048,978	6,364,463
Subsidiary Acquired During the year	-	-							
Charge for the year		272,938	128,629	272,673	86,757	452,732	710,109	1,923,838	1,443,723
Disposals				(33,888)	(1,761)	(3,767)	(1,655)	(41,071)	(49,427)
Transfers/Adjustments					1,021			1,021	-
Transfers from Investment Property								-	10,974
Revaluation adjustment on accumulated depreciation								-	(720,756)
Reclassification to asset held for sale								-	-
<b>Closing Balance as at 31.12.2018</b>	<b>-</b>	<b>411,869</b>	<b>257,505</b>	<b>1,581,667</b>	<b>646,993</b>	<b>2,649,569</b>	<b>3,385,161</b>	<b>8,932,765</b>	<b>7,048,978</b>
Net book value as at 31.12.2018	16,962,991	9,549,553	2,401,680	637,400	254,239	1,539,787	2,454,375	33,800,026	32,141,916
Capital work in progress at cost								1,422,217	1,333,657
Furniture Equipment and Machinery at store								212,075	282,402
								35,434,318	33,757,975

33.2.1 In 2017, Book values of these properties were adjusted for the revalued amounts and revaluation surplus was credited accordingly to the Revaluation Reserve.

Amount Recognized in Other Comprehensive Income	7,749,055
Amount Recognized in Income Statement	(373,691)
	7,375,364

33.2.2 The Carrying amount of revalued assets, in the financial statements if carried at Net Book Value is as follows;

Class of Assets	Cost	Accumulated Depreciation	Net Book Value As at 31.12.2018
Freehold Land & Building	10,720,425	1,707,889	9,012,536
Leasehold Land & Building	3,659,382	1,078,372	2,581,010
	14,379,807	2,786,261	11,593,546

## 34. INVESTMENT PROPERTIES

**ACCOUNTING POLICY**

Investment property is recognized if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured. The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 (LKAS 40) "Investment Property" of which details are set out in the note 5.13 to these financial statements.

As at 31 December	BANK		GROUP	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
<b>Cost</b>				
Opening balance	1,257,186	217,186	201,415	217,186
Additions	-	1,040,000	108	1,040,000
Disposals	-	-	-	-
Transfer during the year	-	-	-	617,793
Transfer to PPE	-	-	(44,268)	(1,673,565)
Other	44,160	-	44,160	-
<b>Closing Balance</b>	<b>1,301,346</b>	<b>1,257,186</b>	<b>201,415</b>	<b>201,415</b>
<b>Accumulated Depreciation</b>				
Opening balance	34,887	33,180	23,913	33,180
Charge for the year	1,707	1,707	1,707	1,707
Disposals	-	-	-	-
Transfer to PPE	-	-	-	(10,974)
<b>Closing Balance</b>	<b>36,594</b>	<b>34,887</b>	<b>25,620</b>	<b>23,913</b>
<b>Net book value</b>	<b>1,264,752</b>	<b>1,222,299</b>	<b>175,795</b>	<b>177,501</b>

## 35. PREPAID LEASES

**ACCOUNTING POLICY**

Pre Paid Leases represent the leasehold interest in the lands held for own use. The value of buildings situated in the leasehold land is shown separately under Property, Plant and Equipment. The interest on leasehold land is stated at cost less accumulated amortisation.

As at 31 December	BANK		GROUP	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
<b>Cost</b>				
Opening balance	1,013,142	1,010,584	1,013,142	1,010,584
Additions	66	2,558	87,963	2,558
Disposals	-	-	-	-
<b>Closing Balance</b>	<b>1,013,208</b>	<b>1,013,142</b>	<b>1,101,105</b>	<b>1,013,142</b>
<b>Accumulated Amortization</b>				
Opening balance	529,256	498,400	529,256	498,400
Charge for the year	22,909	30,856	25,975	30,856
Disposals	-	-	-	-
<b>Closing Balance</b>	<b>552,165</b>	<b>529,256</b>	<b>555,231</b>	<b>529,256</b>
<b>Net book value</b>	<b>461,043</b>	<b>483,886</b>	<b>545,874</b>	<b>483,886</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 36. OTHER ASSETS

As at 31 December	Note	BANK		GROUP	
		2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Deposits and prepayments		2,206,543	2,821,686	2,631,166	3,136,631
Un Amortized Day one difference Staff loans		9,606,001	9,587,888	9,606,001	9,587,888
Accrued Other Income		7,156,945	3,476,868	7,156,945	3,476,868
Insurance and insurance receivables		-	-	424,623	281,316
Net Employee Benefit Asset - Post 1996 Pension Fund	41.3	1,953,069	1,409,071	1,953,069	1,409,071
Others		9,869,052	5,509,757	10,620,589	6,265,600
<b>Total</b>		<b>30,791,610</b>	<b>22,805,270</b>	<b>32,392,393</b>	<b>24,157,374</b>

## 37. DUE TO BANKS

**ACCOUNTING POLICY**

Due to Banks include money market Borrowings and borrowings from banks. These are initially recognised at fair value. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

As at 31 December	BANK		GROUP	
	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Money market Borrowings	137,002,271	79,289,197	137,002,271	79,289,197
Other Borrowings	1,029,149	1,387,153	35,245,590	21,339,355
<b>Total</b>	<b>138,031,420</b>	<b>80,676,350</b>	<b>172,247,861</b>	<b>100,628,552</b>

## 38. DUE TO OTHER CUSTOMERS

**ACCOUNTING POLICY**

Due to customers include Demand deposits [Current Accounts], savings deposits, term deposits including call deposits, certificate of deposits and margin deposits.

These deposits are initially recognised at fair value. Subsequent to initial recognition, deposits are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

As at 31 December	BANK		GROUP	
	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Total Amount due to Other Customers	1,422,961,240	1,244,002,768	1,495,326,489	1,305,625,750
<b>Total</b>	<b>1,422,961,240</b>	<b>1,244,002,768</b>	<b>1,495,326,489</b>	<b>1,305,625,750</b>
<b>Analysis</b>				
<i>By product</i>				
Demand Deposits (current accounts)	63,670,286	60,948,774	61,762,609	58,912,691
Savings Deposits	475,551,072	462,656,628	480,790,869	466,537,083
Fixed Deposits	879,269,257	716,510,807	942,695,773	771,044,347
Other Products	4,470,625	3,886,559	10,077,238	9,131,629
<b>Total</b>	<b>1,422,961,240</b>	<b>1,244,002,768</b>	<b>1,495,326,489</b>	<b>1,305,625,750</b>
<i>By currency</i>				
Sri Lanka rupee	1,324,587,413	1,120,762,321	1,396,952,663	1,182,385,304
United State dollar	85,849,419	111,316,394	85,849,419	111,316,394
Great Britain pound	3,027,793	2,963,155	3,027,793	2,963,155
Others	9,496,615	8,960,898	9,496,615	8,960,897
<b>Total</b>	<b>1,422,961,240</b>	<b>1,244,002,768</b>	<b>1,495,326,489</b>	<b>1,305,625,750</b>

### 39. OTHER BORROWINGS

#### ACCOUNTING POLICY

Other borrowings include refinance borrowings from central Bank & Other financial institutions and Borrowing Under repurchase agreements.

Subsequent to initial recognition these borrowings are measured at their amortised cost using the Effective Interest Rate (EIR) method.

Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

As at 31 December	BANK		GROUP	
	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Central bank of Sri Lanka	2,464,696	1,810,218	2,464,696	1,810,218
Other Financial institutions	995,438	1,279,709	1,009,875	11,414,031
Borrowing Under repurchase agreement	32,115,420	21,291,035	31,607,917	20,410,233
	<b>35,575,554</b>	<b>24,380,962</b>	<b>35,082,488</b>	<b>33,634,482</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 40. DEFERRED TAX (ASSETS) /LIABILITIES

As at 31 December	BANK		GROUP	
	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Differed tax liabilities	5,411,009	4,543,769	8,833,448	7,395,359
Deferred tax assets	(1,456,175)	(88,152)	(1,485,964)	(118,327)
	3,954,834	4,455,617	7,347,484	7,277,032

	BANK 2018				BANK 2017			
	Deferred Tax Asset	Deferred tax Liability	Statement of Profit or loss	Statement of Comprehensive income	Deferred Tax Asset	Deferred Tax Liability	Statement of Profit or loss	Statement of Comprehensive income
Retirement benefit	1,371,304	789,166	695,997	(202,010)	88,152		(28,285)	41,067
Impairment allowance for loan receivables	84,871	-	84,871	-	-		876,194	
Accelerated depreciation allowance for tax purpose - PPE		1,329,044	(78,073)	-		1,250,970	136,757	73,606
Revaluation of Freehold land and building		3,292,799		-		3,292,799		3,292,799
	1,456,175	5,411,009	702,795	(202,010)	88,152	4,543,769	984,665	3,407,472

	GROUP 2018				GROUP 2017			
	Deferred Tax Asset	Deferred tax Liability	Statement of Profit or loss	Statement of Comprehensive income	Deferred Tax Asset	Deferred Tax Liability	Statement of Profit or loss	Statement of Comprehensive income
Retirement benefit	1,399,467	679,662	739,816	(195,647)	91,168	(83,503)	(44,081)	35,060
Carry forward Tax Losses	-	(15,086)	(9,601)		6,855	(1,045)	(6,281)	
Impairment allowance for loan receivables	84,871	(1,012,685)	635,811		21,583	(383,699)	478,161	
Accelerated depreciation allowance for tax purpose - (Lease)	-	3,488,004	(1,046,199)			2,630,428	410,606	73,606
Accelerated depreciation allowance for tax purpose - (PPE)	1,626	1,442,683	(26,362)	(10,000)	(1,279)	1,574,412	417,020	
Fairvale Gain/( Loss) - Investment Properties		630,253	66,698			3,658,766		3,658,766
Revaluation of Freehold land and building		3,620,617	(32,685)	(193,114)				
	1,485,964	8,833,448	327,478	(398,761)	118,327	7,395,359	1,255,424	3,767,432



## 41. OTHER LIABILITIES

As at 31 December	Note	BANK		GROUP	
		2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Deferred income in respect of off-balance sheet items		567,775	562,326	567,775	562,326
Expected Credit Loss in respect of Contingent Liabilities and Commitments		671,288	-	671,288	-
Sundry creditors		3,656,820	3,479,178	3,661,567	3,486,929
Net Defined benefit obligation - Pre 1996 Pension Plan	41.1	3,661,989	5,124,862	3,661,989	5,124,862
Provision For Gratuity	41.2	370,146	314,829	876,509	684,982
Payable on other expenses		4,365,432	3,669,475	6,140,859	4,990,797
Insurance liabilities and reinsurance payable		-	-	4,339,238	3,889,906
Other liabilities		10,626,239	6,105,405	14,431,404	9,640,609
<b>Total</b>		<b>23,919,689</b>	<b>19,256,075</b>	<b>34,350,629</b>	<b>28,380,411</b>

## 41.1 Net Defined Benefit Obligation- Pre 1996 Pension Trust Fund

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1st January 1996, For which an actuarial valuation was carried out using the " Projected Unit Credit Method " in accordance with the Sri Lanka Accounting Standard - 19 " Employee Benefits". The results of the actuarial valuation of the Pre 1996 Pension plan is summarised below.

As at 31 December	Note	BANK		GROUP	
		2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Fair Value of Plan Assets	41.1.1	(45,365,631)	(45,433,858)	(45,365,631)	(45,433,858)
Present value of obligations	41.1.2	49,027,620	50,558,720	49,027,620	50,558,720
Net Defined Benefit Obligation		3,661,989	5,124,862	3,661,989	5,124,862

## 41.1.1 Fair value of Plan Assets

As at 31 December	BANK		GROUP	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Plan assets comprise:				
Fixed Deposits	13,802,750	7,881,875	13,802,750	7,881,875
Government Securities	18,264,488	23,945,498	18,264,488	23,945,498
Debentures	12,500,000	12,500,000	12,500,000	12,500,000
Net Current Assets	798,394	1,106,485	798,394	1,106,485
	45,365,631	45,433,858	45,365,631	45,433,858
Actual Return on Plan Assets	4,081,754	4,597,537	4,081,754	4,597,537

## NOTES TO THE FINANCIAL STATEMENTS

*Movement in the Fair Value of Plan Assets*

As at 31 December	BANK		GROUP	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Fair value of plan assets as at 1 st January	45,433,858	45,125,860	45,433,858	45,125,860
Expected return on plan assets	4,499,848	4,643,578	4,499,848	4,643,578
Benefit paid by the plan	(5,873,663)	(5,374,781)	(5,873,663)	(5,374,781)
Actual Employer Contribution	2,066,089	1,361,536	2,066,089	1,361,536
Actuarial Gain /(Losses)	(760,501)	(322,335)	(760,501)	(322,335)
Fair value of plan assets as at 31 st December	45,365,631	45,433,858	45,365,631	45,433,858

*41.1.2 Movement in the Present value of the defined benefit obligations*

As at 31 December	BANK		GROUP	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Defined benefit obligations as at 1 st January	50,558,720	47,262,533	50,558,720	47,262,533
Benefit paid by the plan	(5,873,663)	(5,374,781)	(5,873,663)	(5,374,781)
Current service cost	522,123	540,154	522,123	540,154
Interest cost	5,384,504	5,198,879	5,384,504	5,198,879
Actuarial (Gain) /Losses	(1,564,065)	2,931,935	(1,564,065)	2,931,935
Present value of defined benefit obligation as at 31 st December	49,027,620	50,558,720	49,027,620	50,558,720

*41.1.3 Net Expenses recognised in Income Statement*

As at 31 December	BANK		GROUP	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Current service cost	522,123	540,154	522,123	540,154
Interest cost	5,384,504	5,198,879	5,384,504	5,198,879
Expected return	(4,499,848)	(4,643,578)	(4,499,848)	(4,643,578)
Net expenses	1,406,779	1,095,455	1,406,779	1,095,455

41.1.4 Actuarial (Gains)/ Losses recognised in Other Comprehensive Income

As at 31 December	BANK		GROUP	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Amount accumulated in retained earnings as at 1st January	(5,970,101)	(2,715,833)	(5,970,101)	(2,715,833)
Recognised during the year	803,564	(3,254,268)	803,564	(3,254,268)
Amount accumulated in retained earnings as at 31st December	(5,166,537)	(5,970,101)	(5,166,537)	(5,970,101)

41.1.5 Actuarial Assumptions

The following are the principal actuarial assumptions as at the reporting date

	BANK		GROUP	
	2018	2017	2018	2017
<b>Financial assumptions</b>				
Discount Rate	12.14%	10.65%	12.14%	10.65%
Increase in Cost of Living Allowances	5.00%	5.00%	5.00%	5.00%
Future Gross Salary Increase	9.00%	7.00%	9.00%	7.00%
<b>Demographic assumptions</b>				
Mortality Table	RP - 2000	RP - 2000	RP - 2000	RP - 2000

41.1.6 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Comprehensive Income Statement and the Statement of Financial Position is the assumed changes in discount rate & salary increment rate as follows;

	BANK				GROUP			
	2018		2017		2018		2017	
	Effect on Comprehensive Income Statement Increase/ (reduction) Rs. '000	Effect on employee benefit obligation Increase/ (reduction) Rs. '000	Effect on Comprehensive Income Statement Increase / (reduction) Rs. '000	Effect on employee benefit obligation Increase / (reduction) Rs. '000	Effect on Comprehensive Income Statement Increase / (reduction) Rs. '000	Effect on employee benefit obligation Increase/ (reduction) Rs. '000	Effect on Comprehensive Income Statement Increase / (reduction) Rs. '000	Effect on employee benefit obligation Increase / (reduction) Rs. '000
Increase/ (decrease) in discount rate								
1%	2,926,845	(2,926,845)	2,976,920	(2,976,920)	2,926,845	(2,926,845)	(2,976,920)	2,976,920
-1%	(3,301,351)	3,301,351	(3,380,680)	3,380,680	(3,301,351)	3,301,351	3,380,680	(3,380,680)
Increase/ (decrease) in salary Increment								
1%	(563,124)	563,124	(645,915)	645,915	(563,124)	563,124	645,915	(645,915)
-1%	529,097	(529,097)	604,109	(604,109)	529,097	(529,097)	(604,109)	604,109

## NOTES TO THE FINANCIAL STATEMENTS

## 41.2 Contribution to Defined Benefit Plan - Gratuity

Employees who joined the Bank on or after 1st January 1996 will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, or if opted can join the proposed new post 1996 pension scheme and if so such employees will forfeit their right to gratuity. An actuarial valuation was carried out using the "Projected Unit Credit Method" in accordance with the Sri Lanka Accounting Standard - 19 "Employee Benefits".

As at 31 December	BANK		GROUP	
	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Balance as at 1st January	314,829	360,480	684,982	646,932
Current Service Cost	29,372	34,796	90,390	117,315
Interest Cost	32,805	39,653	93,822	41,978
Benefits paid during year	(27,143)	(20,870)	(39,355)	(47,244)
Actuarial losses/(Gains) on obligations	20,283	(99,231)	46,670	(74,000)
Balance as at 31st December	370,146	314,829	876,509	684,982

## 41.2.1 The Principal financial assumptions used in the valuations are as follows;

	BANK	
	2018	2017
Discount Rate	12.12% p.a	10.42% p.a
Gross Salary increase for all grades	8.6% p.a	7.0% p.a

## 41.2.2 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Statement of Financial Position is the assumed changes in discount rate & salary increment rate as follow;

		BANK		BANK	
		2018	2017	2018	2017
		Effect on Statement of Profit or Loss Increase / (reduction) Rs. '000	Effect on employee benefit obligation Increase / (reduction) in the Liability Rs. '000	Effect on Statement of Profit or Loss Increase / (reduction) Rs. '000	Effect on employee benefit obligation Increase / (reduction) in the Liability Rs. '000
Increase/ (decrease) in discount rate	1%	23,559	(23,559)	21,634	(21,634)
	-1%	(26,753)	26,753	(24,846)	24,846
Increase/ (decrease) in salary Increment	1%	(27,410)	27,410	(25,889)	25,889
	-1%	24,485	(24,485)	22,802	(22,802)

## 41.3 Net Employee Benefit Asset - Post 1996 Pension Fund

The Board of Directors of the Bank approved this retirement benefit plan for the employees recruited to the bank on or after 01st January 1996. An actuarial valuation was carried out using the "Projected Unit Credit Method" in accordance with the Sri Lanka Accounting Standard - 19 "Employee Benefits". The results of the actuarial valuation of the Post 1996 employment benefit plan is summarised below.

As at 31 December	Note	BANK		GROUP	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Fair Value of Plan Assets	41.3.1	5,646,441	4,395,515	5,646,441	4,395,515
Present value of obligations	41.3.2	(3,693,372)	(2,986,444)	(3,693,372)	(2,986,444)
<b>Net Defined Benefit Asset</b>		<b>1,953,069</b>	<b>1,409,071</b>	<b>1,953,069</b>	<b>1,409,071</b>

## 41.3.1 Fair value of Plan Assets

As at 31 December	BANK		GROUP	
	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
<b>Plan assets comprise:</b>				
Fixed Deposits	5,489,310	4,241,236	5,489,310	4,241,236
Net Current Assets	157,131	154,279	157,131	154,279
	5,646,441	4,395,515	5,646,441	4,395,515
<b>Actual Return on Plan Assets</b>	<b>561,232</b>	<b>451,606</b>	<b>561,232</b>	<b>451,606</b>

## Movement in the Fair Value of Plan Assets

As at 31 December	BANK		GROUP	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Fair value of plan assets as at 1 st January	4,395,515	3,404,309	4,395,515	3,404,309
Expected return on plan assets	470,006	374,378	470,006	374,378
Benefit paid by the plan	(5,411)	(1,614)	(5,411)	(1,614)
Actual Employer Contribution	766,020	577,342	766,020	577,342
Actuarial Gain /(Losses)	20,311	41,099	20,311	41,099
<b>Fair value of plan assets as at 31 st December</b>	<b>5,646,441</b>	<b>4,395,515</b>	<b>5,646,441</b>	<b>4,395,515</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 41.3.2 Movement in the Present value of the defined benefit obligations

As at 31 December	BANK		GROUP	
	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Defined benefit obligations as at 1 st January	2,986,444	2,317,259	2,986,444	2,317,259
Benefit paid by the plan	(5,411)	(1,614)	(5,411)	(1,614)
Current service cost	310,663	248,313	310,663	248,313
Interest cost	319,549	254,898	319,549	254,898
Actuarial (Gain) /Losses	82,127	167,587	82,127	167,587
<b>Present value of defined benefit obligation as at 31 st December</b>	<b>3,693,372</b>	<b>2,986,444</b>	<b>3,693,372</b>	<b>2,986,444</b>

## 41.3.3 Net Expenses recognised in Income Statement

As at 31 December	BANK		GROUP	
	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Current service cost	310,663	248,313	310,663	248,313
Interest cost	319,549	254,898	319,549	254,898
Expected return	(470,006)	(374,378)	(470,006)	(374,378)
<b>Net expenses</b>	<b>160,206</b>	<b>128,834</b>	<b>160,206</b>	<b>128,834</b>

## 41.3.4 Actuarial (Gains)/ Losses recognised in Other Comprehensive Income

As at 31 December	BANK		GROUP	
	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Amount accumulated in retained earnings as at 1st January	67,589	(58,899)	67,589	(58,899)
Recognised during the year	(61,817)	126,488	(61,817)	126,488
Amount accumulated in retained earnings as at 31st December	5,772	67,589	5,772	67,589
<b>41.3.5 Actuarial Assumptions</b>				
The following are the principal actuarial assumptions as at the reporting date				
<b>Financial Assumptions</b>				
Discount rate	12.16%	10.70%	12.16%	10.70%
Increase in cost of living allowance	5.00%	5.00%	5.00%	5.00%
Future Gross Salary Increase	8.10%	7.00%	8.10%	7.00%
<b>Demographic Assumptions</b>				
Mortality Table	RP - 2000	RP - 2000	RP - 2000	RP - 2000

## 42. SUBORDINATED TERM DEBTS

### ACCOUNTING POLICY

Subordinated term debts represent funds borrowed for long term funding purposes which are subordinated to the other claims. Subsequent to initial recognition, subordinated term debts are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

As at 31 December	Interest Rate and Repayment Terms	Issue Date	Maturity Date	BANK		GROUP	
				2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Issued by the bank							
(i) Tranch 2	13.5% - Biannually	30-Dec-2009	29-Dec-2022	2,501,849	2,500,894	2,501,849	2,500,894
(ii) Tranch 3	13.0% - Biannually	30-Dec-2011	29-Dec-2022	5,003,562	5,002,486	5,003,562	5,002,486
(iii) Tranch 4	13.0% - Biannually	15-Jun-2013	29-Dec-2022	5,028,493	5,028,348	5,028,493	5,028,348
Issued by the Subsidiary							
Listed debentures							
(i) Option 2	16.75% - Biannually	27-Mar-2013	26-Mar-2018	-	-	-	2,117,594
(ii) Option 3	17.0% - Annually	27-Mar-2013	26-Mar-2018	-	-	-	2,338,162
(iii) Type B	9.63% - Annually	15-Sep-2014	14-Sep-2018	-	-	-	1,315,027
(iv) Type A	9.60% - Semi Annually	13-Nov-2015	12-Nov-2019	-	-	2,199,696	2,196,987
(v) Type B	9.95% - Annually	13-Nov-2015	12-Nov-2020	-	-	3,869,618	3,859,168
Non Listed Debentures							
(i) Type A	11.9% - Semi Annually	16-Nov-2016	16-Nov-2019	-	-	548,642	548,067
(ii) Type B	12.25% - Semi Annually	16-Nov-2016	16-Nov-2020	-	-	667,474	666,635
(iii) Type C	12.6% - Semi Annually	16-Nov-2016	16-Nov-2021	-	-	6,886,866	6,874,554
(iv) Type A	12.4% - Annually	18-Apr-2018	18-Apr-2022	-	-	707,689	-
(v) Type B	12.8% - Annually	18-Apr-2018	18-Apr-2023	-	-	5,670,637	-
<b>Total</b>				<b>12,533,904</b>	<b>12,531,728</b>	<b>33,084,526</b>	<b>32,447,923</b>
Due within 1 year				-	-	2,748,338	5,770,783
Due after 1 year				12,533,904	12,531,728	30,336,188	26,677,140
<b>Total</b>				<b>12,533,904</b>	<b>12,531,728</b>	<b>33,084,526</b>	<b>32,447,923</b>

### 42.1 Movement in Subordinated Term Debts

	BANK		GROUP	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Balance as at 1 January	12,531,728	12,531,728	32,447,923	36,525,797
Proceed received from subordinated debt	-	-	6,000,000	-
Repayment of subordinated debt	-	-	(5,213,713)	(3,785,560)
Interest expense on subordinated debt	1,612,592	1,612,500	3,960,814	4,209,131
Interest paid on subordinated debt	(1,610,416)	(1,612,500)	(4,110,498)	(4,501,445)
<b>Balance as at 31 December</b>	<b>12,533,904</b>	<b>12,531,728</b>	<b>33,084,526</b>	<b>32,447,923</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 43. STATED CAPITAL / ASSIGNED CAPITAL

	BANK		GROUP	
	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Stated Capital (Note 43.1)	49,998	49,998	49,998	49,998
Assigned Capital (Note 43.2)	12,152,000	12,152,000	12,152,000	12,152,000
	12,201,998	12,201,998	12,201,998	12,201,998
<b>43.1 Stated Capital</b>				
<b>43.1.1 Movement of Stated Capital</b>				
<b>Authorised</b>				
20,000,000 Ordinary Shares of 50/- each	1,000,000	1,000,000	1,000,000	1,000,000
<b>Fully Paid</b>				
999,960 Ordinary Shares of 50/- each	49,998	49,998	49,998	49,998

All issued shares of 1Mn are fully paid except for 40 shares for which calls have been made, but remain unpaid

#### 43.1.2 Principal Shareholders of the Bank are as follows

	2018 %	2017 %
Government of Sri Lanka	92.27	92.27
Corporative Societies	7.73	7.73
	100.00	100.00

#### 43.2 Assigned Capital ( Capital Pending Allotment)

**43.2.1** The Government of Sri Lanka has injected Rs. 12,152 Mn as capital to the Bank. This amount is currently in the Capital Pending Allotment Account. The Bank is planning to issue 243,039,960 shares of Rs.50 each, subsequent to the increase in authorised share capital.

**43.2.2** The increase in paid up capital requires an amendment to the People's Bank Act and it is yet to be finalized.

**43.2.3** The Ministry of Finance of the Government of Sri Lanka infused four tranches of Rs.1 Bn, Rs.2 Bn, Rs.1.5 Bn and Rs.1.5 Bn capital respectively for year 2005 to 2008 and Rs. 5 Bn capital in 2017 in order to meet the stipulated minimum capital requirement by the Central bank of Sri Lanka



#### **44. STATUTORY RESERVE FUND**

The Statutory Reserve Fund is maintained as required by the Banking Act No. 30 of 1988. Accordingly, the Bank should, out of profits after taxation but before any dividend is declared, transfer to the Statutory Reserve Fund a sum equivalent to not less than 5% of the Bank's paid-up capital until the Permanent Reserve is equal to 50% of the paid-up capital and not less than 2% until the Permanent Reserve equals the paid-up capital.

"Accordingly, Bank has transferred Rs. 855 Mn for the current year.

#### **45. OTHER RESERVES**

##### **45.1 Revaluation Reserve**

This reserve has been created in accordance with Sri Lanka Accounting Standard 16 - Property, Plant & Equipment

##### **45.2 Capital Reserve**

This reserve has been created in 1987 and increased in 1998, has no transferred to date.

##### **45.3 Special Risk Reserve**

In terms of Central Bank directives, 25% of Primary Dealer Unit (PDU) profit has been transferred to Special Risk Reserve in order to promote the safety, soundness and the stability of the Primary Dealer System and to build up Primary Dealer Capital Base

According to Central Bank Direction 08/11/011/0019/001 dated 14.02.2013 Bank is exempted from the requirement of maintaining the reserve. Therefore No transfer is made to the reserve this year based on the direction from the Central Bank of Sri Lanka.

##### **45.4 General Reserve**

This reserve has been created under Section 22(2) of the People's Bank Act No.29 of 1961. The General Reserve represents accumulated unallocated retained Profits & Losses which are available for distribution and for settlement of debentures issued.

##### **45.5 Available for Sale Reserve**

The AFS reserve comprises the cumulative net change in Fair value of financial investments available for sale until such investments are derecognised or impaired

##### **45.6 Financial Assets at FVOCI Reserve**

This FVOCI reserve comprises the cumulative net change in Equity instruments at FVOCI and Debt Instruments at FVOCI until such investments are derecognised or impaired

##### **45.7 Special levy to Treasury/ Dividend**

Payment of Rs. 419 Mn was made according to the Agreement between the Government of Sri Lanka and the People's Bank, the Bank is required to pay back 25% of the Restructuring Bond interest to the General Treasury as a Dividend. Additional details relating to this expense is reflected in Note 24.3.C.

Rs. 3,000 Mn pertains to a dividend / special levy paid to the consolidated fund of the Government of Sri Lanka as determined by the Ministry of Finance.

## NOTES TO THE FINANCIAL STATEMENTS

## 46. MOVEMENT IN RETAINED EARNINGS AND OTHER RESERVES

## 46.1 Bank

	Statutory Reserve Rs.'000	Revaluation Reserve Rs.'000	Capital Reserve Rs.'000	Special Risk Reserve Rs.'000
<b>Balance as at 01.01.2017</b>	4,902,255	10,843,204	5,663	1,633,710
Profit for the year	-	-	-	-
Changes in Fair Value in AFS Investments	-	-	-	-
Reversal of Fair value gain on disposal of AFS Investments	-	-	-	-
Net Defined Benefit obligation	-	-	-	-
Deferred tax effect on defined benefit plans	-	-	-	-
Revaluation Surplus of Land and Building	-	6,568,522	-	-
Deferred tax effect on Revaluation Surplus	-	(3,366,405)	-	-
Transfer to Reserve during the year	912,489	-	-	-
Transfer to Retained earnings during the year	-	6,590	-	-
Special levy to Treasury/ Dividend	-	-	-	-
<b>Balance as at 31.12.2017</b>	5,814,744	14,051,911	5,663	1,633,710
<b>Impact of adopting SLFRS 9 as at 1st January 2018 (Note 6.2)</b>				
<b>Restated opening balance under SLFRS 9 as at 01.01.2018</b>	5,814,744	14,051,911	5,663	1,633,710
Profit for the year	-	-	-	-
Net Gains/( Losses) on equity instruments at fair value through OCI	-	-	-	-
Net Gains/( Losses) on debt instruments at fair value through OCI	-	-	-	-
Net Actuarial gains and losses on defined benefit plans	-	-	-	-
Deferred Tax effect of Net Actuarial gains and losses on defined benefit plans	-	-	-	-
Transfer to Reserve during the year ( Note 44) & ( Note 45.4)	854,746	-	-	-
Special levy to Treasury/ Dividend (Note 45.7)	-	-	-	-
<b>Balance as at 31.12.2018</b>	6,669,490	14,051,911	5,663	1,633,710

General Reserve Rs.'000	Available For Sale Reserve Rs. '000	Financial Assets at FVOCI Reserve	Retained Earnings Rs.'000	Total Rs.'000
8,439,500	273,778		26,348,749	52,446,857
-	-		18,249,776	18,249,776
-	(177,930)		-	(177,930)
-	17,289		-	17,289
-	-		(3,222,626)	(3,222,626)
-	-		(41,067)	(41,067)
-	-		-	6,568,522
-	-		-	(3,366,405)
873,864	-		(1,786,353)	-
-	-		(6,590)	-
-	-		(5,219,690)	(5,219,690)
9,313,364	113,137	-	34,322,199	65,254,728
	(113,137)	115,030	(458,787)	(456,894)
9,313,364	-	115,030	33,863,412	64,767,834
-	-		17,094,923	17,094,923
-	-	17,560	-	17,560
-	-	(2,154)		(2,154)
-	-		721,465	721,465
-	-		(202,010)	(202,010)
873,864	-		(1,728,611)	-
-	-		(3,419,690)	(3,419,690)
10,187,228	-	130,436	46,329,489	79,007,928

## NOTES TO THE FINANCIAL STATEMENTS

## 46. MOVEMENT IN RETAINED EARNINGS AND OTHER RESERVES

## 46.2 Group

	Statutory Reserve Rs.'000	Revaluation Reserve Rs.'000	Capital Reserve Rs.'000	Special Risk Reserve Rs.'000
<b>Balance as at 01.01.2017</b>	4,902,255	11,883,155	5,663	1,633,710
Profit for the Period	-	-	-	-
Changes in Fair Value in AFS Investments	-	-	-	-
Reversal of Fair value gain on disposal of AFS Investments	-	-	-	-
Net Defined Benefit obligation	-	-	-	-
Revaluation Surplus on Land & Building	-	7,582,372	-	-
Transfer to Reserve during the year	912,489	-	-	-
Transfer to Retained Earnings during the period	-	6,590	-	-
Special levy to Treasury/ Dividend	-	-	-	-
Movement due to change in Ownership	-	-	-	-
Deffered tax effect on defined benefit plans	-	-	-	-
Deffered tax effect on Revaluation Surplus	-	(3,640,880)	-	-
Gains and losses on derivative financial Assets	-	-	-	-
Dividend payment	-	-	-	-
<b>Balance as at 31.12.2017</b>	5,814,744	15,831,237	5,663	1,633,710
<b>Impact of adopting SLFRS 9 as at 1st January 2018 ( Note 6.5 )</b>				
<b>Restated opening balance under SLFRS 9 as at 01.01.2018</b>	5,814,744	15,831,237	5,663	1,633,710
Profit for the year	-	-	-	-
Net Gains/( Losses) on equity instruments at fair value through OCI	-	-	-	-
Net Gains/( Losses) on debt instruments at fair value through OCI	-	-	-	-
Net Gains/(Losses) on translating the financial statements of foreign operation	-	-	-	-
Net Actuarial Gains and Losses on Defined Benefit Plans	-	-	-	-
Deffered tax effect on net Actuarial Gains and Losses on Defined Benefit Plans	-	-	-	-
Revaluation Surplus on Land & Building	-	37,500	-	-
Deffered tax effect on Revaluation Surplus	-	(7,500)	-	-
Deffered tax effect on Revaluation Surplus in previous years	-	(63,422)	-	-
Transfer to Reserve during the year	854,746	-	-	-
Special levy to Treasury/ Dividend	-	-	-	-
Dividend payment	-	-	-	-
<b>Balance as at 31.12.2018</b>	6,669,490	15,797,815	5,663	1,633,710

General Reserve Rs.'000	Cash Flow Hedge Reserve Rs. '000	Available For Sale Reserve Rs. '000	Financial Assets at FVOCI Reserve	Exchange Equalisation Fund Rs. '000	Retained Earnings Rs.'000	Total Rs.'000	Non Controlling Interest	Total Rs.'000
8,439,500	11,787	296,180		-	43,185,534	70,357,784	7,631,326	77,989,110
-	-	-		-	19,295,734	19,295,734	1,215,187	20,510,921
-	-	(177,011)		-	-	(177,011)	1,680	(175,331)
-	-	17,289		-	-	17,289	-	17,289
-	-	-		-	(3,240,752)	(3,240,752)	(6,082)	(3,246,834)
-	-	-		-	-	7,582,372	166,683	7,749,055
873,864	-	-		-	(1,786,353)	-	-	-
-	-	-		-	(6,590)	-	-	-
-	-	-		-	(5,219,690)	(5,219,690)	-	(5,219,690)
-	-	-		(6,626)	-	(6,626)	987,624	980,998
-	-	-		-	(36,570)	(36,570)	1,510	(35,060)
-	-	-		-	-	(3,640,880)	(91,492)	(3,732,372)
-	(11,787)	-		-	-	(11,787)	(3,928)	(15,715)
-	-	-		-	-	-	(581,222)	(581,222)
9,313,364	-	136,458		(6,626)	52,191,314	84,919,861	9,321,287	94,241,148
		(136,458)	115,030		(1,031,973)	(1,053,401)	(198,836)	(1,252,237)
9,313,364	-	-	115,030	(6,626)	51,159,341	83,866,460	9,122,451	92,988,911
-	-	-			19,977,862	19,977,862	1,514,281	21,492,143
-	-	-	17,560	-	-	17,560	-	17,560
-	-	-	(2,154)			(2,154)		(2,154)
-	-	-		279,004	-	279,004	93,001	372,005
-	-	-		-	702,840	702,840	(6,238)	696,602
-	-	-		-	(197,243)	(197,243)	1,597	(195,646)
-	-	-		-	-	37,500	12,500	50,000
-	-	-		-	-	(7,500)	(2,500)	(10,000)
					-	(63,422)	(21,141)	(84,563)
873,864	-	-		-	(1,728,611)	-	-	-
-	-	-		-	(3,419,690)	(3,419,690)	-	(3,419,690)
-	-	-		-	-	-	(593,719)	(593,719)
10,187,228	-	-	130,436	272,378	66,494,499	101,191,216	10,120,232	111,311,449

## NOTES TO THE FINANCIAL STATEMENTS

## 47. CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, the Bank makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

As at 31 December	Note	BANK		GROUP	
		2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Contingent Liabilities	47.1	346,641,288	245,675,334	347,387,712	246,433,060
Commitments	47.2	56,791,963	57,668,816	62,858,973	57,668,816
Less :		403,433,251	303,344,150	410,246,685	304,101,876
Allowance for Expected credit losses	47.3	(671,288)	-	(671,288)	-
		402,761,963	303,344,150	409,575,397	304,101,876
<b>47.1 Contingent Liabilities</b>					
Acceptances		90,195,344	60,018,935	90,195,344	60,018,935
Documentary Credit		84,103,230	74,128,107	84,103,230	74,128,107
Guarantees		73,255,113	73,466,998	74,001,537	74,224,724
Forward Exchange Contracts		99,087,601	38,061,294	99,087,601	38,061,294
		346,641,288	245,675,334	347,387,712	246,433,060
<b>47.2 Commitments</b>					
Non disbursed overdrafts & loans		56,791,963	57,668,816	62,858,973	57,668,816
		56,791,963	57,668,816	62,858,973	57,668,816

## 47.3 Movement in Allowance for Expected Credit Loss [ ECL ] based on exposure to credit risk

BANK and GROUP	2018 RS. 000			
	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01st January	95,614	219,783	1,627,270	1,942,666
Net Charge/(Reversal) for the year	7,828	49,111	(1,328,318)	(1,271,379)
Closing balance as at 31st December	103,442	268,894	298,952	671,288

## 47.4 Other Capital Commitments

Capital Expenditure approved by the Board of Directors for which provisions has not been made in these Financial Statements amounted to ;

	BANK		GROUP	
	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Approved and Contracted for	1,468,662	871,783	1,503,652	3,668,014
Approved but not contracted for	62,610	330,614	928,301	140,610
	1,531,272	1,202,397	2,431,953	3,808,624

#### 47.5 Assessment Received by the Bank

Following assessments were received by the bank from the Department of Inland Revenue

##### Income Tax

Income Tax for the Years of Assessment 2010/2011, 2011/2012, 2012/2013, 2013/2014, 2014/2015 and 2015/2016 are respectively Rs. 2,422.29 million (ITA 13291100319V1), Rs.1,383.83 million (ITA 14271100064V1), Rs. 6,054.77 million (ITA 15271100004V1), Rs. 7,452.63 million (ITA 16300500108V1), Rs. 5,564.82 million (ITA 170106000084V1) and Rs. 3,891.59 million ( 201516002 )

##### Value Added Tax

Value Added Tax on Financial Services for the years 2012, 2013, 2014 and 2015 are respectively Rs 732.27 million (VATFS/BFSU/2015/660), Rs.360.79 million (VATFS/BFSU/2015/661), Rs. 404.98 million (VATFS/BFSU/2017/816) and Rs. 802.82 million (VATFS/BFSU/2018/894)

##### Nation Building Tax

Nation Building Tax on Financial Services for the years 2014 and 2015 are respectively Rs 60.26 million (NBTFS/BFSU/2017/086) and Rs. 130.32 million (NBTFS/BFSU/2018/239)

#### 47.6 Litigation Against the Bank and Companies within the group

In the normal course of business, the Bank is involved in various types of litigation, including litigation with borrowers who are in default under terms of their loan agreements. In certain circumstances, borrowers have asserted or threatened counter claims defenses. The Bank is also contesting certain Labour Tribunal cases. In the opinion of management, based on its assessment and consultation with outside counsel, litigation which is currently pending against the Bank and the Group will not have a material impact on the financial condition or future operations of the Bank and the Group as a whole. The total damage claimed of litigation against the bank amounts to approximately Rs. 7.35 Billion, of which details are given Below

Zone	Region	Total
Legal	Legal Department	581,775,813
Western I	Western Zone 1	-
	Gampaha	975,000
Central	Kandy	108,131,900
	Matale	14,637,000
	Nuwara eliya	689,300
Eastern	Batticaloa	454,000
North Central	Anuradhapura	1,050,000
	Polonnaruwa	-
Northern	Jaffna	-
	Wanni	-
Southern	Galle	250,000,000
	Hambantota	1,200,000
	Matara	52,543,700
Uva	Badulla	4,000,000
Sabaragamuwa	Kegalle	-
	Rathnapura	1,500,000
Western II	Western II	1,000,000
	Kalutara	31,103,167
Special Assets Unit/Corporate Banking Division		6,301,341,567
		7,350,401,447

## NOTES TO THE FINANCIAL STATEMENTS

**48. SUBSEQUENT EVENTS**

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

**49. RELATED PARTY DISCLOSURES**

The Bank has carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures', except for the transactions that Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates. Those transactions include lending activities, acceptance of deposits, off balance sheet transactions and provision of other banking and finance services.

**49.1 Parent and the ultimate controlling party**

People's Bank is a Sri Lankan Government owned Bank

**49.2 Key Management Personnel (KMPs) and their Close Family Members (CFMs)**

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Such Key Management Persons include Chairman, Executive and Non Executive Directors and Chief Executive Officer/General Manager of the Bank. Close family members of an Individual are those family members who may be expected to influence, or to be influenced by, that individual in their dealings with the entity. They may include individual's domestic partner and children, children of the individual's domestic partner and dependants of the individual or the individual's domestic partner.

**49.2.1. Compensation of Key Management Personnel (KMPs)**

For the year ended 31 December	2018 Rs.'000	2017 Rs.'000
Short-term employee benefits	37,172	29,500
Post-employment pension	2,735	-
Termination benefits	-	-
Share-based payments	-	-
Other Long Term Benefits	-	-

**49.2.2. Transactions with Key Management Personnel (KMPs)**

For the year ended 31 December	2018 Rs.'000	2017 Rs.'000
<b>a. Items in income statement</b>		
Interest Income	-	-
Interest Expenses	6,131	-

For the year ended 31 December	2018 Rs.'000	2017 Rs.'000
<b>b. Items in statement of financial position</b>		
Residential mortgages	-	-
Term Loans	2,474	-
Credit cards	503	-
Cash Margin Loans	-	-
Deposits	14,623	-
Guarantees	-	-
Securities sold under repurchase agreement	987	-



**49.2.3. Transactions with Close Family Members (CFMs) of the Key Management Personnel**

For the year ended 31 December

2018  
Rs.'000

<b>a. Items in income statement</b>	
Interest Income	41
Interest Expenses	108
<b>For the year ended 31 December</b>	<b>2018</b> <b>Rs.'000</b>
<b>b. Items in statement of financial position</b>	
Residential mortgages	-
Term Loans	1,444
Overdrafts	2,491
Cash Margin Loans	-
Deposits	3,019
Guarantees	-

**49.3 Transactions with Group Entities**

The Group entities include the Subsidiaries and Associates of the Bank

**49.3.1 Transactions with subsidiaries, sub-subsidiaries and associate companies of the Bank**

The aggregate amount of income and expenses arising from the transactions during the year, amount due to and due from the relevant related party and total contract sum of off balance sheet transactions at the year end are summarized below.

For the year ended 31 December

	Subsidiary Companies of the Bank		Sub- subsidiary Companies of the Bank	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
<b>a. Items in income statement</b>				
Interest income	1,092,912	1,101,385	117	-
Interest expense	783,948	561,503	32,094	9,455
Dividend income	1,482,606	1,482,359	-	-
Other income	39,987	22,454	96,487	76,817
Other expenses	-	-	380,659	287,989

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	Subsidiary Companies of the Bank		Sub- subsidiary Companies of the Bank	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
<b>b. Items in statement of financial position</b>				
<b>Assets</b>				
Investments	1,325,766	1,325,766	-	-
Loans	10,096,474	7,587,761	-	-
Overdrafts	3,414,532	2,131,835	25,392	-
Assets backed securities	2,598,034	885,676	-	-
Other receivables	3,181	2,958	213,211	224,086
	17,437,986	11,933,996	238,603	224,086
<b>Liabilities</b>				
Deposits	2,896,100	5,077,467	652,985	210,103
Securities sold under repurchase agreements	7,517,323	3,583,085	203,375	473,506
Other payables	6,868	1,364	17,151	4,226
	10,420,291	8,661,915	873,511	687,834
<b>c. Off balance sheet items</b>				
Guarantees	33,300	32,800	-	-

## 49.4 Transactions with Government of Sri Lanka (GOSL) and State- Owned Enterprises (SOEs).

Transactions and arrangements entered in to by the Bank with the Government of Sri Lanka and State Owned Enterprises are as follows:

For the year ended 31 December	2018 Rs.'000	2017 Rs.'000
<b>a. Items in income statement</b>		
Interest income	51,117,090	50,840,496
Other income	706,693	773,823
Interest expenses	22,113,059	15,967,815

For the year ended 31 December	2018 Rs.'000	2017 Rs.'000
<b>b. Items in statement of financial position</b>		
<b>Assets</b>		
Balances with CBSL	51,615,796	65,689,278
Investment in Government Securities	276,659,261	231,062,209
Loans & Receivables - Term Loans	452,869,874	269,354,147
- Overdrafts	83,676,700	78,217,200
- Bills	3,543,103	558,684
	868,364,733	644,881,519

## For the year ended 31 December

	2018 Rs.'000	2017 Rs.'000
<b>Liabilities</b>		
CBSL Borrowings	2,464,696	1,810,218
Deposits - Demand	28,092,186	25,968,504
- Savings	17,980,852	12,291,431
- Time	222,547,482	142,489,029
	<b>271,085,216</b>	182,559,181
<b>c. Items in statement of changes in equity</b>		
Dividends paid	219,690	219,690
Special levy	3,200,000	5,000,000

## As at 31 December

	2018 Rs.'000	2017 Rs.'000
<b>d. Off balance sheet items</b>		
Acceptances	86,078,859	54,311,258
Documentary Credit	63,343,548	56,922,893
Guarantees	1,066,005	9,563,369
	<b>150,488,413</b>	120,797,521

## 49.5 Transactions with Post Employment Benefit plans for Bank's employees.

Transactions and arrangements entered in to by the post employment benefit plans for Bank's employees are as follows:

## For the year ended 31 December

	2018 Rs.'000	2017 Rs.'000
<b>a. Items in income statement</b>		
Interest Expenses	4,351,888	4,258,920
Contribution made	1,406,779	1,095,455

## As at 31 December

	2018 Rs.'000	2017 Rs.'000
<b>b. Items in statement of financial position</b>		
<b>Liabilities</b>		
Deposits	14,462,202	8,405,671
Securities sold under repurchase agreements	15,833,494	21,239,015
Subordinated Term Debts	12,533,904	12,531,728

## NOTES TO THE FINANCIAL STATEMENTS

**50. FAIR VALUE OF FINANCIAL INSTRUMENTS****50.1 Fair value**

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

**Determination of fair value and fair value hierarchy**

The group 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

**50.2 Financial instruments recorded at fair value**

Following descriptions show how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques which incorporates the bank's estimate of assumptions that a market participant would make when valuing the instruments.

**Derivatives**

Derivative products valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates.

**Financial Assets - Fair Value Through OCI / Available for sale**

Financial Assets - Fair Value Through OCI and Available for sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities. These assets are valued using models that use both observable data. The un observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile and economic assumptions.

**Financial Assets - Fair Value Through Profit or Loss / Held for Trading**

Other trading assets valued using quoted (unadjusted) prices in active markets available for each of identical assets.

**50.3 Assets Measured at Fair Value - by level of the fair value hierarchy.**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31st December 2018	BANK				GROUP			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>								
<b>Derivative financial instruments</b>								
Forward foreign exchange contracts & SWAPS		1,163,384		1,163,384		1,163,384		1,163,384
<b>Financial Assets - At Fair Value through Profit or Loss</b>								
Treasury bills and bonds	53,875,479			53,875,479	53,875,479			53,875,479
Quoted - Equity securities	118,312			118,312	366,115			366,115
- Debt securities	58,644			58,644	58,644			58,644
<b>Equity instruments at fair value through OCI</b>								
Unquoted equity securities			671,881	671,881			671,915	671,915
Quoted equity securities	508,041			508,041	508,041			508,041
<b>Debt instruments at fair value through OCI</b>								
Treasury bills and bonds	1,680,310			1,680,310	1,705,347			1,705,347
Debt Securities	3,050,951			3,050,951	3,050,951			3,050,951
<b>Loans and receivables</b>		1,265,087,981		1,265,087,981		1,415,348,050		1,415,348,050
<b>Non Financial Assets measured at fair value</b>								
Land and building			20,742,015	20,742,015			28,914,224	28,914,224
	59,291,737	1,163,384	1,286,501,877	1,346,956,998	59,564,577	1,163,384	1,444,934,189	1,505,662,150
<b>Financial Liabilities</b>								
<b>Derivative financial instruments</b>								
Forward foreign exchange contracts		2,512,205		2,512,205		2,512,205		2,512,205

31st December 2017	BANK				GROUP			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>								
<b>Derivative financial instruments</b>								
Forward foreign exchange contracts	-	334,230	-	334,230		334,230		334,230
				-				-
<b>Other financial assets held for trading</b>								
Treasury bills and bonds	50,133,681	-	-	50,133,681	50,133,681			50,133,681
Quoted - Equity securities	311,655	-	-	311,655	624,087			624,087
- Debt securities	-	78,146		78,146	-	78,146		78,146
Investment in Unit Trust		2,519,075		2,519,075		2,519,075		2,519,075
<b>Financial investments available for sale</b>								
Treasury bills and bonds	318			318	861,332			861,332
Unquoted equity securities			614,071	614,071			614,104	614,104
Quoted equity securities	548,290	-		548,290	755,804			755,804
Debt Securities	2,252,665			2,252,665	2,252,665			2,252,665
				-				-
<b>Loans and receivables</b>			1,013,675,079	1,013,675,079			1,144,846,273	1,144,846,273
<b>Non Financial Assets measured at fair value</b>								
Land and building			20,414,844	20,414,844			28,124,551	28,124,551
	53,246,609	2,931,451	1,034,703,994	1,090,882,054	54,627,569	2,931,451	1,173,584,928	1,231,143,948
<b>Financial Liabilities</b>								
<b>Derivative financial instruments</b>								
Forward foreign exchange contracts		273,975		273,975		273,975		273,975

## NOTES TO THE FINANCIAL STATEMENTS

## 50.4 Movements in Level 3 Assets Measured at Fair Value

The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets and liabilities which are recorded at fair value.

Rs. '000	BANK				GROUP					
	As at 1 Jan-18	Total Gains/ (losses) recorded in profit or loss	Total Gains/ (losses) recorded in OCI	Purchases/ (sales) in profit or loss	As at 31 Dec-18	As at 1 Jan-18	Total Gains/ (losses) recorded	Total Gains/ (losses) recorded	Purchases/ (sales)	As at 31 Dec-18
<b>Financial Assets</b>										
<b>Financial Assets - Fair Value Through OCI</b>										
Unquoted equity securities	614,071	-	57,810	-	671,881	614,104	-	57,810	-	671,915
Total Level 3 financial assets	614,071	-	57,810	-	671,881	614,104	-	57,810	-	671,915
<b>Financial Liabilities</b>										
Total Level 3 Financial Liabilities	-	-	-	-	-	-	-	-	-	-
<b>Total net level 3 Financial assets/(liabilities)</b>	614,071	-	57,810	-	671,881	614,104	-	57,810	-	671,915

Rs. '000	BANK				GROUP					
	As at 1 Jan-17	Total Gains/ (losses) recorded in profit or loss	Total Gains/ (losses) recorded in OCI	Purchases/ (sales) in profit or loss	As at 31 Dec-17 in OCI	As at 1 Jan-17	Total Gains/ (losses) recorded	Total Gains/ (losses) recorded	Purchases/ (sales)	As at 31 Dec-17
<b>Financial Assets</b>										
<b>Financial investments available for sale</b>										
Unquoted equity securities	529,125	-	(93,131)	178,077	614,071	731,484	-	(93,131)	(24,249)	614,104
Total Level 3 financial assets	529,125	-	(93,131)	178,077	614,071	731,484	-	(93,131)	(24,249)	614,104
<b>Financial Liabilities</b>										
Total Level 3 Financial Liabilities	-	-	-	-	-	-	-	-	-	-
<b>Total net level 3 Financial assets/(liabilities)</b>	529,125	-	(93,131)	178,077	614,071	731,484	-	(93,131)	(24,249)	614,104

### 50.5 Fair value of assets and liabilities not measured 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 (original maturity less than a year), it is assumed that the carrying amount approximate their fair values. This assumption is also applied to demand deposits, call deposits and savings deposits without specific maturity.

#### Fixed rate financial instruments

Loans and advances with fixed interest rates were fair valued using market rates end of the reporting period and other variable interest bearing loans were considered as carrying value equal fair value. Conversely, fixed deposits with original tenor above one year and interest paid at maturity were discounted using current market rates offered to customers end of the reporting period.

Set out below is a comparison by class, of the carrying amount 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.

Rs. '000	BANK				GROUP			
	2018		2017		2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial Assets</b>								
Cash and cash equivalents	57,879,933	57,879,933	68,958,012	68,958,012	58,835,090	58,709,191	69,675,003	69,675,003
Balances with central banks	51,615,796	51,615,796	65,689,278	65,689,278	51,615,796	51,615,796	65,689,278	65,689,278
Placements with banks	4,350,726	4,350,726	13,458,639	13,458,639	9,096,252	9,096,252	18,944,087	18,944,087
Loans and receivables to banks	32,167,421	32,167,482	86,097,515	86,097,515	32,551,657	32,551,657	86,436,113	86,436,113
Loans and receivables to Other Customers	1,265,667,467	1,265,087,981	1,012,642,714	1,013,675,079	1,415,927,536	1,415,348,050	1,143,776,774	1,144,846,273
Financial Investments - Held-to-Maturity	-	-	112,351,039	109,096,270	-	-	117,137,814	113,883,045
Debt instruments measured at amortised cost	201,650,435	190,241,803			209,696,173	197,261,067		
<b>Financial Liabilities</b>								
Due to banks	138,031,420	138,031,420	80,676,350	80,676,350	172,247,861	172,247,861	100,628,552	100,628,552
Due to other customers	1,422,961,240	1,417,209,305	1,244,002,768	1,244,002,768	1,495,326,489	1,489,574,554	1,305,625,750	1,305,625,750
Other borrowings	35,575,554	35,575,554	24,380,962	24,380,962	35,082,488	35,082,488	33,634,482	33,634,482
Subordinated term debts	12,533,904	12,533,904	12,531,728	12,531,728	33,084,526	33,084,526	32,447,923	32,447,923

## NOTES TO THE FINANCIAL STATEMENTS

## 51. FINANCIAL REPORTING BY SEGMENT

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, (including revenue and expenses that relate to transactions with other components of the group) whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to each segment and assess its performance, and for which discrete Financial information is available.

The Group's segmental reporting is based on the following operating segments

- ◆ Retail Banking
- ◆ Corporate Banking
- ◆ Treasury & Primary Dealer Unit [PDU]
- ◆ Leasing
- ◆ Insurance
- ◆ Finance
- ◆ Travels

The following table presents income, profit, total assets, total liabilities of the Group's operating segments

	Retail Banking		Corporate Banking		Treasury & PDU		Total Bank	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>Income from External customers</b>								
Net Interest Income	42,832,477	34,834,056	7,522,921	3,532,719	9,065,802	11,610,441	59,421,200	49,977,216
Net Fee and Commission Income	4,926,221	3,779,783	1,631,985	1,308,552	33,991	(216,201)	6,592,198	4,872,134
Net Gain(loss) From Trading	723,261	1,080,150	1,712,881	955,580	2,118,947	746,372	4,555,089	2,782,102
Others	708,087	1,491,755	791,653	305,393	197,946	348,570	1,697,687	2,145,718
<b>Total Operating income from External customers</b>	<b>49,190,046</b>	<b>41,185,744</b>	<b>11,659,440</b>	<b>6,102,244</b>	<b>11,416,687</b>	<b>12,489,182</b>	<b>72,266,173</b>	<b>59,777,170</b>
<b>Inter-segment revenue</b>								
Net Interest Income			678,578	488,619			678,578	488,619
Net Fee and Commission Income			652				652	-
Net Gain(loss) From Trading							-	-
Others	1,633,602	1,590,193					1,633,602	1,590,193
<b>Total Inter-segment revenue</b>	<b>1,633,602</b>	<b>1,590,193</b>	<b>679,231</b>	<b>488,619</b>	<b>-</b>	<b>-</b>	<b>2,312,833</b>	<b>2,078,812</b>
<b>Total Operating Income</b>	<b>50,823,648</b>	<b>42,775,937</b>	<b>12,338,671</b>	<b>6,590,863</b>	<b>11,416,687</b>	<b>12,489,182</b>	<b>74,579,006</b>	<b>61,855,982</b>
Total Incurred Expenses							(50,172,516)	(35,942,877)
Income Tax expenses							(7,311,567)	(7,663,329)
<b>Profit for the year</b>							<b>17,094,923</b>	<b>18,249,776</b>
Non Controlling Interest								
Profit for Equity Holders of the bank								
<b>Other Comprehensive Income Net of Tax</b>								
<b>Total Comprehensive Income</b>								
<b>Non Controlling interest</b>								
<b>Profit for the Equity Holders of the bank</b>								
Segment Assets	884,280,708	774,855,715	338,391,369	246,024,388	512,030,912	446,219,005	1,734,702,989	1,467,099,108
<b>Total Assets</b>	<b>884,280,708</b>	<b>774,855,715</b>	<b>338,391,369</b>	<b>246,024,388</b>	<b>512,030,912</b>	<b>446,219,005</b>	<b>1,734,702,989</b>	<b>1,467,099,108</b>
Segment Liabilities	871,780,487	762,524,948	312,688,808	227,421,355	459,023,769	399,696,079	1,643,493,064	1,389,642,382
<b>Total Liabilities</b>	<b>871,780,487</b>	<b>762,524,948</b>	<b>312,688,808</b>	<b>227,421,355</b>	<b>459,023,769</b>	<b>399,696,079</b>	<b>1,643,493,064</b>	<b>1,389,642,382</b>
<b>Total Equity and Liabilities</b>	<b>884,556,297</b>	<b>774,855,715</b>	<b>338,391,369</b>	<b>246,024,388</b>	<b>512,030,912</b>	<b>446,219,005</b>	<b>1,734,702,989</b>	<b>1,467,099,108</b>



Leasing		Insurance		Finance		Travels		Eliminations		Group	
2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
15,677,776	12,088,239	528,491	605,797	216,143	75,485	9,981	(1,209)			75,853,591	62,745,528
849,780	633,512			8,473	2,825	-				7,450,451	5,508,471
(264,812)	30,373			-	2,847	-		177,304		4,467,581	2,815,322
1,534,965	1,162,262	3,410,134	3,889,805	66,647	22,973	55,771	47,403	-	(819,449)	6,765,204	6,448,712
17,797,709	13,914,386	3,938,625	4,495,602	291,263	104,130	65,752	46,194	177,304	(819,449)	94,536,826	77,518,033
(633,702)	(472,512)			(39,721)	(21,199)	(5,155)	5,092			-	-
								(652)		-	-
187,514		257,469	207,377					(2,078,586)	(1,797,570)	-	-
(446,188)	(472,512)	257,469	207,377	(39,721)	(21,199)	(5,155)	5,092	(2,079,238)	(1,797,570)	-	-
17,351,521	13,441,874	4,196,094	4,702,979	251,542	82,931	60,597	51,286	(1,901,934)	(2,617,019)	94,536,826	77,518,033
(10,209,045)	(7,903,062)	(3,538,238)		(304,800)		(45,732)		895,103		(63,375,229)	(47,649,602)
(2,262,610)	(1,690,090)	(93,014)		213		(2,477)				(9,669,455)	(9,357,510)
4,879,866	4,454,519	564,842	4,702,979	(53,045)	82,931	12,388	51,286	(1,006,830)	(2,617,019)	21,492,143	20,510,921
										1,514,281	1,215,187
										19,977,862	19,295,734
										843,804	561,032
										22,335,947	21,071,953
										1,591,501	1,283,557
										20,744,446	19,788,396
179,657,076	159,847,017	8,413,357	7,745,115	3,373,126	2,959,294	132,521	130,445	(17,738,836)	(18,702,387)	1,908,540,233	1,619,078,592
179,657,076	159,847,017	8,413,357	7,745,115	3,373,126	2,959,294	132,521	130,445	(17,738,836)	(18,702,387)	1,908,540,233	1,619,078,592
149,601,905	133,970,895	5,021,604	3,057,240	3,181,406	2,715,082	40,976	50,038	(16,312,171)	(16,800,194)	1,785,026,784	1,512,635,443
149,601,905	133,970,895	5,021,604	3,057,240	3,181,406	2,715,082	40,976	50,038	(16,312,171)	(16,800,194)	1,785,026,784	1,512,635,443
179,657,067	159,847,017	8,413,357	7,745,115	3,373,126	2,959,294	132,521	130,445	(17,738,836)	(18,702,387)	1,908,540,233	1,619,078,592

## NOTES TO THE FINANCIAL STATEMENTS

## 52. NON CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

	BANK		GROUP	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Depreciation of Property plant & equipment	1,505,250	1,081,440	1,795,209	1,352,823
Amortisation of leased hold properties	128,629	94,989	128,629	94,989
Amortisation of prepayment leases	22,909	30,856	25,975	30,856
Amortisation of intangible assets	107,329	43,536	154,414	58,937
Depreciation of investment property	1,707	1,707	1,707	1,707
Impairment losses on Financial Assets	7,019,238	2,678,366	7,932,127	4,191,905
Other impairments	298,223	-	888,900	187,862
Profit on sale of fixed assets	(56,569)	(27,306)	(78,220)	(46,041)
Changes in derivative financial instruments	1,409,076	(117,381)	1,409,076	(126,956)
Changes in fair value of trading securities	223,396	(411,391)	223,396	(411,391)
Premium Amortisation of Held to Maturity investments	373,922	296,012	373,922	296,012
Revaluation Loss on Property plant & equipment	-	373,691	-	373,691
<b>Total</b>	<b>11,033,110</b>	<b>4,044,519</b>	<b>12,855,135</b>	<b>6,004,394</b>
<b>53. CHANGES IN OPERATING ASSETS</b>				
Held at fair value through profit or loss	(1,233,274)	(5,715,855)	(1,168,645)	(5,487,754)
Net increase in balance with central bank	14,073,482	(2,639,762)	14,073,482	(2,639,762)
Net increase in placement with bank	9,107,913	19,314,339	9,847,835	17,127,913
Net increase in loans and receivable to banks	53,930,094	(14,569,484)	53,884,456	(14,230,735)
Net increase in loans an receivable to customers	(258,558,219)	(124,792,979)	(279,402,460)	(134,037,386)
Net increase /(Decrease) in financial investments FVOCI	(2,480,433)	(2,050,146)	(1,436,943)	(1,383,639)
Change in other asstes	(7,986,406)	(6,631,083)	(9,256,150)	(6,996,006)
<b>Total</b>	<b>(193,146,843)</b>	<b>(137,084,970)</b>	<b>(213,458,425)</b>	<b>(147,647,369)</b>
<b>54. CHANGES IN OPERATING LIABILITIES</b>				
Changes in due to banks	57,355,070	(26,247,926)	71,619,309	(29,493,694)
Change in deposits from banks ,customers and debt securities issued	178,958,472	166,190,641	189,700,739	185,872,568
Change in other borrowings	11,194,592	(2,803,572)	1,448,006	(8,661,891)
Change in other liabilities	1,813,250	(515,453)	3,260,396	(1,369,610)
<b>Total</b>	<b>249,321,384</b>	<b>136,623,690</b>	<b>266,028,450</b>	<b>146,347,373</b>

## 55. FINANCIAL RISK MANAGEMENT

### Introduction

As a financial intermediary, the Bank is exposed to array of risks through its daily operations. The Bank's key risk exposures include credit, market, liquidity and operational risk. However, with the rapid technological innovations / IT based products & solutions introduced by the Bank, due consideration should be given to Information Systems risk as well. Proactive identification of such risk exposures is of high importance to ensure the sustainability and profitability of the Bank. In response to an increasingly dynamic and competitive operating landscape, evolving risks and significant regulatory developments, there is an ongoing imperative to enhance risk management continuously across the Bank. A robust risk management framework in place supports the efficient management and mitigation of the said risk exposure.

### Risk Management Framework

Risk is identified and managed as part of a Group-wide Risk Management Framework. The Group's Board of Directors has ultimate responsibility for the oversight of risk, determining risk appetite levels, formulating risk policies and ensuring the effectiveness of the risk management processes and procedures in place. The BIRMC (Board Integrated Risk Management Committee) assists the Board in the discharge of its risk related duties and provides independent oversight of all risk related aspects by ensuring the adequacy and effectiveness of the implementation of risk governance structures, policy frameworks, standards and processes. Furthermore, the BECC (Board Executive Credit Committee), BAC (Board Audit Committee) and the BIBC (Board Investment Banking Committee) also support the Board in discharging its risk related duties. Executive committees namely, the ALCO (Assets and Liabilities Management Committee) and the ORMC (Operational Risk Management Committee) play a critical role in ensuring the effective implementation of the Bank's Risk management processes.

The People's Bank Group Risk Management Framework forms the foundation for managing risk, and sets out the Group's risk universe, risk parameters and assigns executive and board responsibility for the management and oversight of risk and ensures that growth and risk considerations are appropriately balanced. Policies and systems associated with the Risk Management framework are reviewed on a regular basis to factorize the adversities in market conditions and the changes in Group's activities.

The framework is based on the three lines of defense model specifically, the Business Line, Risk Management and Internal Audit.

### Risk Appetite

The term 'Risk Appetite' refers to the broad types and quantum of risk the People's Bank Group is willing to undertake in implementing its business strategy. It is expressed in the form of tolerance limits and risk trigger points across a range of variables. The Board of Directors has ultimate responsibility for setting the Risk Appetite of the Group and ensure that the exposures and risks are maintained within that approved levels.

### Risk Mitigation

As part of its overall risk management, the Bank obtains various types of collateral and establishes maximum prudential limits.

### Risk Management and Credit Control Department

The Risk Management and Credit Control Department (RM & CC) holds overall executive responsibility for the Bank's risk management functions. It is headed by the Chief Risk Officer (DGM-Risk Management) who reports directly to BIRMC and operates independently of business units as well as profit and volume targets. Four separate units have been established under the RM & CC with specific responsibilities for handling Credit, Market, Operational and Information Systems Risks.

### Credit Risk

Credit risk is the risk of potential loss to the Bank, if a borrower or counterparty to a financial instrument fails to meet their financial or contractual obligations, and arises principally from the Bank's loans and advances to customers/other banks and investments in debt securities. In addition to the credit risk from direct funding exposures, the Bank would also be exposed to indirect liabilities such as letters of credit, guarantees etc., which would carry credit risk. Credit risk is composed of default risk /settlement risk, concentration risk and counterparty risk.

The Board Executive Credit Committee (BECC) functions as the steering committee holding overall responsibility for implementing the Bank's credit risk management framework. The Credit Control Unit operates independently from the business lines and drives all credit risk management efforts. The primary responsibility for managing credit risk lies with the business units, complemented by independent review by the Credit Control Unit.

Key aspects of the Group's credit policies include delegated approval authority at multiple levels, a comprehensive credit appraisal mechanism which includes well-defined credit criteria and prudential limits in line with the defined risk appetite among others. Borrowers are assessed primarily on repayment capacity and internally developed risk rating scorecards and a 9-point rating scale is used for evaluating credit worthiness. Tailor-made scorecards have been developed for assessing corporates, SME borrowers' financial institutions as well as retail borrowers. The internal credit rating models in place represent diverse risk factors and are able to predict the probability of default and loss given default.

### Impairment Assessment

#### Definition of Default and Cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past or three instalments in arrears due on its contractual payments or when classified as Non-Performing Loan(NPL) as per directions issued by the Central Bank of Sri Lanka (CBSL). 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.

## NOTES TO THE FINANCIAL STATEMENTS

### Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis if there is any objective evidence of a potential loss. The Bank has currently set individually significant threshold at Rupees 25 million and every customer having an aggregate exposure above that limit is individually assessed for objective evidence of incurred loss. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy arise, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows.

### Collectively-Assessed Allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually significant and for individually significant loans and receivables that have been assessed individually and found not to be impaired. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as loan types, industry codes, and level of arrears) The Bank applies a three-stage approach to measure expected credit losses (ECLs).

Financial assets migrate Through the following three stages based on the change in credit risk since initial recognition:

#### Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Bank determines 12 month ECL from customers whom are not significantly credit deteriorated (i.e. less than 30 days past due)

#### Stage 2: Lifetime ECL – not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised. In consistent with the policies of the bank, significant deterioration is measured through the rebuttable presumption of 30 days past due other than the credit facilities categorized under Stage 3, in line with the requirements of the standard.

Bank also have considered all restructured loans, which are restructured up to two times, other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage consider under stage 2 as per the guidance issued by the Central Bank.

#### Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows

of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the mortised cost (net of provision) rather than the gross carrying amount.

Bank determines credit facilities where contractual payments of a customer are more than 90 days past due which are subject to the rebuttable presumption as stated in SLFRS 9 together with all NPL classifications as per Central Bank classification, All restructured loans which are restructured more than twice and all rescheduled loans other than credit facilities/exposures upgraded credit facilities from a higher stage to a lower stage and all credit facilities/customers classified as non-performing as per CBSL Directions under stage 3.

	2018 Rs. '000	2017 Rs. '000
<b>Individually Significant Impaired Loans</b>		
Amortized Cost	72,377,462	70,631,078
Allowances for Impairment	(47,680,508)	(44,913,498)
<b>Carrying amount as at 31st December</b>	<b>24,696,954</b>	<b>25,717,580</b>
<b>Collectively Assessed Loans</b>		
Amortized Cost	1,262,042,798	1,003,616,574
Allowances for Impairment	(21,072,285)	(16,691,440)
<b>Carrying amount as at 31st December</b>	<b>1,240,970,513</b>	<b>986,925,134</b>

### PD estimation process

Probability of Default is the estimate of the likelihood of default over a given time horizon. PD estimation for loans and advances to other customers under SLFRS 9 is largely based on the Days Past Due(DPD) of the customers which is common for most Banks in the country at present. Accordingly, exposures are categorized among 5 groups based on the DPD as follows.

- ◆ Zero days past due
- ◆ 1-30 days past due
- ◆ 31-60 days past due
- ◆ 61-90 days past due
- ◆ Above 90 days past due

### The exposure at default (EAD)

The exposure at default (EAD) 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. The Bank uses Credit Conversion Factors(CCF) which explains the historical utilization of defaulted facilities at the time of default to calculate the EAD of revolving facilities in which customers have the ability to increase their exposure. For non-revolving facilities, already utilized amount plus any accrued interest over same is considered as EAD.

### Loss given default(LGD)

Loss given default(LGD) is the magnitude of likely loss on exposure, and is expressed as a percentage of exposure. These LGD rates take into

account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held.

The Bank segments its retail lending products 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 (e.g., product type, wider range of collateral types) as well as borrower characteristics.

For each year, closed contracts which have crossed the Above 90 days at-least once in their lifetime are considered. LGD will factor in all cash flows subsequent to the point of default until the full settlement of the loan. Virtually closed contracts are also added to this data set. Virtually closed contracts are active loans which have been long outstanding. A contract is determined to be virtually closed at the point the Bank determines that the cash flows have dried up.

**Analysis of the total impairment for expected credit losses**

As at 31st December 2018	Note	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Total Rs. 000
Cash and Cash Equivalents	18.4	311	4,248	-	4,559
Placements with Banks	20.2	573	-	-	573
Loans and Receivables to Banks	24.2	49,716	-	-	49,716
Loans and Receivables to Other Customers	25.3	5,110,245	1,752,572	61,889,977	68,752,793
Debt instruments at fair value through OCI	29.2	795	6,564	-	7,359
<b>Total Impairment for Expected Credit Losses</b>		<b>5,161,640</b>	<b>1,763,384</b>	<b>61,889,977</b>	<b>68,815,000</b>

**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;

	Expected Credit Loss on Loans and Advances Rs. 000
<b>As at 31st December 2017</b>	
<b>Scenario A - Actual</b>	14,974,918
Base case - 30%, Upside - 30%, Downside - 40%	
<b>Scenario B</b>	
Base case - 25%, Upside - 25%, Downside - 50%	15,016,322
<b>Change in Impairment Allowance - Increase/ (Decrease) - (B - A)</b>	41,404
<b>As at 31st December 2017</b>	
<b>Scenario A - Actual</b>	
Base case - 30%, Upside - 30%, Downside - 40%	14,974,918
<b>Scenario B</b>	
Base case - 35%, Upside - 35%, Downside -30%	14,932,233
<b>Change in Impairment Allowance - Increase/ (Decrease) - (B - A)</b>	(42,685 )

	Expected Credit Loss on Loans and Advances Rs. 000
<b>As at 31st December 2018</b>	
<b>Scenario A - Actual</b>	21,072,284
Base case - 30%, Upside - 30%, Downside - 40%	
<b>Scenario B</b>	
Base case - 25%, Upside - 25%, Downside - 50%	21,164,182
<b>Change in Impairment Allowance - Increase/ (Decrease) - (B - A)</b>	91,897
<b>As at 31st December 2018</b>	
<b>Scenario A - Actual</b>	
Base case - 30%, Upside - 30%, Downside - 40%	21,072,284
<b>Scenario B</b>	
Base case - 35%, Upside - 35%, Downside -30%	20,979,752
<b>Change in Impairment Allowance - Increase/ (Decrease) - (B - A)</b>	(92,533)

## NOTES TO THE FINANCIAL STATEMENTS

**Analysis of Inputs to the ECL Model under Multiple Economic Scenarios**

The Bank obtains the data from third party sources such as CBSL, International Monetary Fund and/or World Bank in all instances where such projections are available. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2017 and 2018. The tables show the values of key forward looking economic variables/assumptions used in each of the economic Scenarios for the ECL calculations.

**As at 31st December 2018**

Key Drivers	ECL Scenario	Assigned Probabilities	2019	2020	2021	2022	2023	2024	2025
GDP Growth	Best Case	30%	3.92%	4.03%	4.15%	4.27%	4.32%	4.32%	4.32%
	Base Case	30%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%
	Worst Case	40%	3.62%	3.58%	3.54%	3.50%	3.40%	3.40%	3.40%
Inflation (YoY Average)	Best Case	30%	4.09%	4.04%	4.00%	3.95%	3.83%	3.83%	3.83%
	Base Case	30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%
	Worst Case	40%	4.44%	4.57%	4.71%	4.84%	4.90%	4.90%	4.90%
Interest Rate (PLR)	Best Case	30%	11.18%	11.00%	10.81%	10.63%	10.23%	10.23%	10.23%
	Base Case	30%	11.94%	11.94%	11.94%	11.94%	11.94%	11.94%	11.94%
	Worst Case	40%	12.48%	12.98%	13.49%	14.02%	14.25%	14.25%	14.25%
Exchange Rate- (US\$:LKR)	Best Case	30%	183.3	183.7	184.1	184.5	185.0	185.4	185.8
	Base Case	30%	194.6	207.2	220.5	234.7	249.8	250.0	250.0
	Worst Case	40%	218.7	250.0	250.0	250.0	250.0	250.0	250.0
Unemployment (% of Labor Force)	Best Case	30%	4.08%	4.07%	4.07%	4.06%	4.05%	4.05%	4.05%
	Base Case	30%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%
	Worst Case	40%	4.12%	4.13%	4.14%	4.16%	4.16%	4.16%	4.16%

**As at 31st December 2017**

Key Drivers	ECL Scenario	Assigned Probabilities	2018	2019	2020	2021	2022	2023	2024
GDP Growth	Best Case	30%	3.43%	3.54%	3.66%	3.78%	3.83%	3.83%	3.83%
	Base Case	30%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%
	Worst Case	40%	3.12%	3.08%	3.04%	2.99%	2.90%	2.90%	2.90%
Inflation (YoY Average)	Best Case	30%	6.22%	6.13%	6.04%	5.95%	5.75%	5.75%	5.75%
	Base Case	30%	6.60%	6.60%	6.60%	6.60%	6.60%	6.60%	6.60%
	Worst Case	40%	6.87%	7.11%	7.36%	7.61%	7.73%	7.73%	7.73%
Interest Rate (PLR)	Best Case	30%	10.63%	10.46%	10.29%	10.12%	9.75%	9.75%	9.75%
	Base Case	30%	11.33%	11.33%	11.33%	11.33%	11.33%	11.33%	11.33%
	Worst Case	40%	11.83%	12.28%	12.75%	13.24%	13.46%	13.46%	13.46%
Exchange Rate- (US\$:LKR)	Best Case	30%	153.2	153.6	153.9	154.3	154.6	155.0	155.3
	Base Case	30%	160.7	168.9	177.5	186.5	196.1	206.1	216.6
	Worst Case	40%	170.6	190.5	212.7	237.5	265.1	296.0	300.0
Unemployment (% of Labor Force)	Best Case	30%	4.18%	4.17%	4.17%	4.16%	4.15%	4.15%	4.15%
	Base Case	30%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%
	Worst Case	40%	4.21%	4.23%	4.24%	4.25%	4.26%	4.26%	4.26%

**Collateral and Other Credit Enhancements****Net Exposure to Credit Risk**

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. We adopt a stringent approach towards collateral valuation, and these are regularly reviewed

and updated to ensure that valuations reflect market conditions. Relatively diverse collateral portfolio of the Bank mitigates the impact of potential price drops in a particular asset class.

The main types of collateral obtained are as follows.

- ◆ For commercial lending-charges over real estate properties, trade receivables, inventory, corporate and personal guarantees.
- ◆ For retail lending-mortgage over residential properties, personal guarantees.

The following tables show the maximum exposure and net exposure (net of fair value of any collaterals held) to credit risk by class of financial asset.

#### As at 31st December 2018

	Maximum exposure to credit risk		Net Exposure
	Rs. 000		Rs. 000
Cash and Cash Equivalents	57,879,933		7,501,166
Placements with banks	4,350,726		4,350,726
Derivative Financial Instruments	1,163,384		1,163,384
Financial Assets-at fair value through profit or loss	54,052,435		54,052,435
Loans and Receivables to Banks	32,167,421		14,151,872
Loans and Receivables to Other Customers	1,265,667,467		400,818,710
Equity Instruments at fair value through OCI	1,179,922		1,179,922
Debt Instruments at fair value through OCI	4,731,261		4,731,261
Debt Instruments measured at amortized cost	201,650,435		201,650,435
<b>Total</b>	<b>1,622,842,984</b>		<b>689,599,911</b>

#### As at 31st December 2017

Financial Assets	Maximum exposure to credit risk		Net Exposure
	Rs. 000		Rs. 000
Cash and Cash Equivalents	68,958,012		31,579,829
Placements with banks	13,458,639		13,458,639
Derivative Financial Instruments	334,230		334,230
Financial Assets Held for Trading	53,042,557		53,042,557
Loans and Receivables to Banks	86,097,515		47,889,817
Loans and Receivables to Other Customers	1,074,247,652		330,659,135
Financial Investments - Available for Sale	3,415,344		3,415,344
Financial Investments - Held to Maturity	112,351,039		112,351,039
<b>Total</b>	<b>1,411,904,988</b>		<b>592,730,590</b>

#### Concentration of Credit Risk

Concentration risk stems from high lending exposure to a particular sector, product, region or customer/group. The Bank's Risk Appetite clearly defines exposure limits for particular sectors and products and such limits are reviewed and modified in the context of emerging risks and opportunities presented by the operating landscape. In addition to adherence to the Single Borrower Limit, the Bank also uses Herfindahl-Hirschman Index (HHI) to monitor and control concentrations. These limits are monitored by the Risk Management Department, BIRMC and Board on a regular basis.

#### Adherence to credit concentration risk limits

	Q4 - 2018	HHI Threshold
Individual customer (with GOSL)	0.10	
Individual customer (without GOSL)	0.02	0.15
Industry segment (with GOSL)	0.18	
Industry segment (without GOSL)	0.12	0.20

## NOTES TO THE FINANCIAL STATEMENTS

An analysis of risk concentration by industry for the financial assets is given below.

As at 31st December 2018

	Government	Commercial	Financial	Agricultural
<b>Financial Assets</b>				
Cash and Cash Equivalents			57,884,491	
Balances with Central Bank of Sri Lanka	51,615,796			
Placements with Banks			4,351,299	
Derivative Financial Instruments			1,163,384	
Other Financial Assets Held-for-Trading				
Financial Assets - At Fair Value through Profit or Loss	53,875,479	65,057		58,644
Financial Assets - At Amortised Cost				
Loans and Receivables to Banks	14,151,872		18,065,265	
Loans and Receivables to Other Customers	553,469,625	144,907,135	10,048,375	11,117,541
Debt instruments measured at amortised cost	201,650,435			
Financial Investments - Held-to-Maturity				
Financial Assets - At Fair Value through OCI				
Equity instruments at fair value through OCI	671,881	503,880	4,161	
Debt instruments at fair value through OCI	1,680,310	1,554,202	1,130,165	
Financial Investments - Available-for-Sale				
<b>Total</b>	<b>877,115,398</b>	<b>147,030,274</b>	<b>92,647,140</b>	<b>11,176,185</b>

As at 31st December 2017

	Government	Commercial	Financial	Agricultural
<b>Financial Assets</b>				
Cash and Cash Equivalents			68,958,012	
Balances with Central Bank of Sri Lanka	65,689,278			
Placements with Banks			13,458,639	
Derivative Financial Instruments			334,230	
Other Financial Assets Held-for-Trading	50,133,681	198,809	2,524,441	72,780
Financial Assets - At Fair Value through Profit or Loss				
Financial Assets - At Amortised Cost				
Loans and Receivables to Banks	47,889,817		38,207,698	
Loans and Receivables to Other Customers	356,805,349	116,595,228	15,041,076	11,374,533
Debt instruments measured at amortised cost				
Financial Investments - Held-to-Maturity	112,351,039			
Financial Assets - At Fair Value through OCI				
Equity instruments at fair value through OCI				
Debt instruments at fair value through OCI				
Financial Investments - Available-for-Sale	614,389	1,042,872	1,143,931	
<b>Total</b>	<b>633,483,553</b>	<b>117,836,908</b>	<b>139,668,027</b>	<b>11,447,313</b>

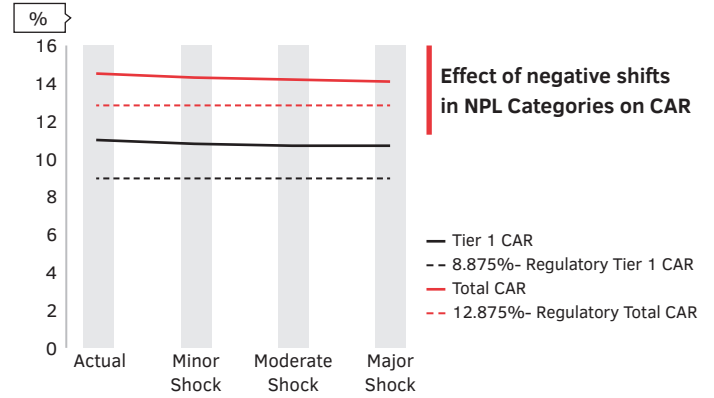
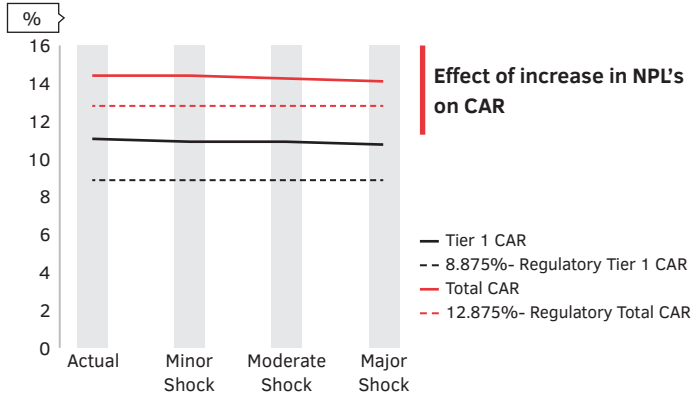


Industrial	Tourism	Housing & Property Development	Consumption	Services	Other	ECL	Total
						(4,558)	57,879,933
							51,615,796
						(573)	4,350,726
							1,163,384
							-
35,388		7,767		10,100			54,052,435
							-
						(49,716)	32,167,421
32,976,127	17,003,520	282,103,889	236,241,350	15,315,688	31,237,010	(68,752,793)	1,265,667,467
							201,650,435
							-
							-
							1,179,922
		366,585					4,731,261
							-
33,011,515	17,003,520	282,478,240	236,241,350	15,325,788	31,237,010	(68,807,640)	1,674,458,780

Industrial	Tourism	Housing & Property Development	Consumption	Services	Other	ECL	Total
							68,958,012
							65,689,278
							13,458,639
							334,230
33,839		47,016		31,992			53,042,557
							-
							-
							86,097,515
30,277,308	13,130,666	272,043,503	222,798,291	7,521,039	28,660,659	(61,604,938)	1,012,642,714
							-
							112,351,039
							-
							-
		614,152					3,415,345
30,311,147	13,130,666	272,704,671	222,798,291	7,553,030	28,660,659	(61,604,938)	1,415,989,328

## NOTES TO THE FINANCIAL STATEMENTS

### STRESS TESTING

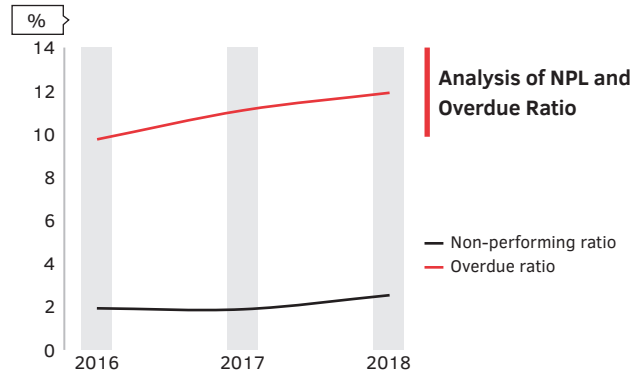
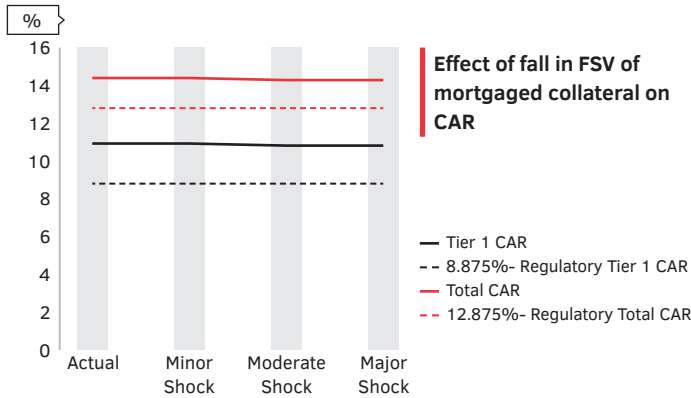


#### i. Increase in NPL,

	Min Req. 2018	Actual as at 31/12/2018	Minor	Moderate	Major
Magnitude of shock			5%	10%	20%
<b>Revised CAR %</b>					
Tier 1 capital as a % of RWA	8.875%	11.02%	10.94%	10.87%	10.72%
Total capital as a % of RWA	12.875%	14.47%	14.39%	14.32%	14.17%

#### ii. Negative shifts in NPL categories,

	Min Req. 2018	Actual as at 31/12/2018	Minor	Moderate	Major
Magnitude of shock			50%	80%	100%
<b>Revised CAR %</b>					
Tier 1 capital as a % of RWA	8.875%	11.02%	10.81%	10.68%	10.60%
Total capital as a % of RWA	12.875%	14.47%	14.26%	14.13%	14.05%



#### iii. Fall in forced sale value of mortgaged collateral

	Min Req. 2018	Actual as at 31/12/2018	Minor	Moderate	Major
Magnitude of shock			5%	10%	15%
<b>Revised CAR %</b>					
Tier 1 capital as a % of RWA	8.875%	11.02%	10.96%	10.91%	10.86%
Total capital as a % of RWA	12.875%	14.47%	14.41%	14.36%	14.31%

#### Credit quality analysis

Credit indicator	2016	2017	2018
Non-performing ratio	1.95%	1.91%	2.5%
Overdue ratio %	9.78%	11.09%	11.88%
Provision coverage	110.4%	97.5%	72.3%
Industry Average NPLs	2.6%	2.5%	3.4%

**LIQUIDITY RISK**

Liquidity risk is the potential loss of earnings / erosion of capital arising from the inability to meet the Bank's contractual financial obligations as and when they fall due. Banks are vulnerable to liquidity and solvency problems resulting from asset and liability mismatches. The management of such risks are a vital element of the Bank's operations.

The Bank's liquidity risk management framework aims to assess/ quantify and ensure the availability of funds required to meet Bank's contractual obligations at appropriate times. This is ensured under both normal and stressed conditions. The Bank's Treasury is entrusted to manage the liquidity risk and the Risk Management Department ensures same by monitoring the adherence to set limits / regulatory ratios etc. and performing other related analysis. ALCO on the other hand, oversee the management of same by continuously monitoring the Bank's liquidity position to ensure that compliance to internal targets as well as regulatory requirements are met.

The Bank measures liquidity through the dual approaches of flow and stock. The flow method measures liquidity through analyzing the mismatch between inflows and outflows in various time bands based on the maturity of assets and liabilities. The stock method measures liquidity in terms of a set of key ratios such as Loans to Deposit ratio, Commitments ratio (Unutilized portion of overdrafts/Unutilized Inter-bank lines), statutory liquid asset ratio and cumulative mismatches.

**Analysis of Financial Assets and Liabilities****Maturity Profile of Assets and Liabilities as at 31 December 2018**

	Up to 3 M	3-12 M	1-3 Years	3-5 Years	Over 5 Years	Total	
						2018	2017
<b>Assets</b>							
Cash and Cash equivalents	57,879,933	-	-	-	-	57,879,933	68,958,012
Balances with Central Bank	15,034,997	20,927,837	5,169,634	5,038,206	5,445,122	51,615,796	65,689,278
Placements with banks	4,350,726	-	-	-	-	4,350,726	13,458,639
Derivative with Banks	149,610	1,013,774	-	-	-	1,163,384	334,230
Other Financial assets held-for-trading	-	-	-	-	-	-	53,042,557
Financial Assets at Fair Value Through Profit or Loss	54,052,435	-	-	-	-	54,052,435	-
Loans and receivables to banks	6,429,198	7,791,380	3,005,889	4,215,966	10,724,988	32,167,421	86,097,515
Loans and receivables to other customers	252,964,856	306,561,578	118,270,477	165,882,455	421,988,101	1,265,667,467	1,012,642,714
Debt Instruments Measured at Amortized Cost	36,921,303	51,261,349	54,314,718	59,153,065	-	201,650,435	-
Financial investments - Held-to-maturity	-	-	-	-	-	-	112,351,039
Financial Assets-at Fair Value Through OCI	5,911,183	-	-	-	-	5,911,183	-
Financial investments - Available-for-sale	-	-	-	-	-	-	3,415,344
Investments in subsidiaries	-	-	-	-	1,027,542	1,027,542	1,325,766
Goodwill and intangible assets	-	-	-	-	439,517	439,517	225,058
Property, plant and equipment	-	-	-	-	26,259,745	26,259,745	25,047,501
Investment properties	-	-	-	-	1,264,752	1,264,752	1,222,299
Prepaid Leases	-	-	-	-	461,043	461,043	483,886
Other assets	28,490,912	1,632,123	200,855	467,720	-	30,791,610	22,805,270
<b>Total Assets 2018</b>	<b>462,185,153</b>	<b>389,188,041</b>	<b>180,961,573</b>	<b>234,757,412</b>	<b>467,610,810</b>	<b>1,734,702,989</b>	-
<b>Total Assets 2017</b>	<b>303,722,491</b>	<b>341,169,056</b>	<b>150,670,623</b>	<b>207,705,140</b>	<b>463,831,797</b>	-	<b>1,467,099,108</b>

## NOTES TO THE FINANCIAL STATEMENTS

	Up to 3 M	3-12 M	1-3 Years	3-5 Years	Over 5 Years	Total	
						2018	2017
<b>Liabilities</b>							
Due to banks	99,459,036	38,572,384	-	-	-	138,031,420	80,676,350
Derivative with Banks	1,502,204	1,010,001	-	-	-	2,512,205	273,975
Due to other customers	396,413,675	521,780,261	131,584,517	118,743,875	254,438,912	1,422,961,240	1,244,002,768
Other Borrowings	25,634,093	9,941,461	-	-	-	35,575,554	24,380,962
Current tax liabilities	4,004,218	-	-	-	-	4,004,218	4,064,907
Deferred tax liabilities	-	-	-	-	3,954,834	3,954,834	4,455,617
Other liabilities	13,730,230	8,642,258	1,168,086	379,115	-	23,919,689	19,256,075
Due to subsidiaries	-	-	-	-	-	-	-
Subordinated term debts	-	-	-	12,533,904	-	12,533,904	12,531,728
Stated Capital	-	-	-	-	12,201,998	12,201,998	12,201,998
Statutory Reserve Fund	-	-	-	-	6,669,490	6,669,490	5,814,744
Other reserve	-	-	-	-	26,008,948	26,008,948	25,117,785
Retained earnings	-	-	-	-	46,329,489	46,329,489	34,322,199
<b>Total Liabilities 2018</b>	540,743,456	579,946,365	132,752,603	131,656,894	349,603,671	1,734,702,989	-
<b>Total Liabilities 2017</b>	471,531,976	437,386,525	119,772,683	111,007,864	327,400,059	-	1,467,099,108
<b>NET GAP 2018</b>	(78,558,303)	(190,758,324)	48,208,970	103,100,518	118,007,139	-	-
<b>NET GAP 2017</b>	(167,809,485)	(96,217,469)	30,897,940	96,697,276	136,431,738	-	-

**Maturity Profile of the Undiscounted Cash Flows of Financial Liabilities as at 31st December 2018**

Financial Liabilities	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Total
Due to Banks	1,029,149	74,580,135	46,312,808	18,954,035	140,876,127
Derivative Financial Instruments	-	65,252,442	11,096,720	-	76,349,162
Due to Other Customers	551,825,065	525,328,329	538,550,217	20,955,789	1,636,659,400
Other Borrowings	-	31,516,322	666,956	3,460,134	35,643,411
Subordinated Term Debts	-	-	1,591,604	17,306,541	18,898,145
<b>Total Undiscounted Financial Liabilities</b>	552,854,214	696,677,227	598,218,305	60,676,499	1,908,426,245

**Maturity Profile of the Undiscounted Cash Flows of Financial Liabilities as at 31st December 2017**

Financial Liabilities	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Total
Due to Banks	1,387,153	33,988,344	26,756,210	21,046,693	83,178,401
Derivative Financial Instruments	-	10,658,583	5,050,510	-	15,709,093
Due to Other Customers	537,262,885	362,729,720	423,992,840	20,019,103	1,344,004,548
Other Borrowings	-	20,371,516	1,010,462	3,089,927	24,471,905
Subordinated Term Debts	-	-	1,591,604	18,898,145	20,489,749
<b>Total Undiscounted Financial Liabilities</b>	538,650,038	427,748,163	458,401,627	63,053,868	1,487,853,696

**Liquidity shock –fall in liquid Liability (SLRs)**

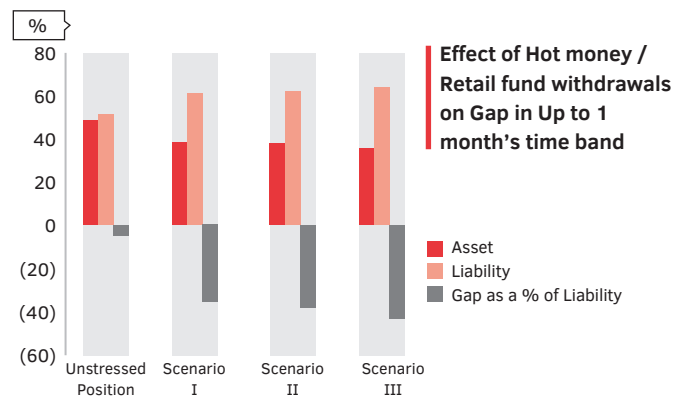
DBU	Balance as at 31.12.2018	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock		5%	10%	15%
Liquid Assets (Rs. Mn)	333,377	333,377	333,377	333,377
Total Liabilities (Rs. Mn)	1,456,076	1,456,076	1,456,076	1,456,076
Fall in the Liabilities (Rs. Mn)		72,804	145,608	218,411
Revised Liquid Liabilities (Rs. Mn)		1,383,272	1,310,468	1,237,665
Revised Liquid Assets (Rs. Mn)		260,573	187,769	114,966
Liquid Asset Ratio after shock	22.90%	18.84%	14.33%	9.29%

**Liquidity shock –fall in liquid Liability (USD)**

OSBU	Balance as at 31.12.2018	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock		5%	10%	15%
Liquid Assets (USD '000)	304,504	304,504	304,504	304,504
Total Liabilities (USD '000)	1,124,949	1,124,949	1,124,949	1,124,949
Fall in the Liabilities (USD '000)		56,247	112,495	168,742
Revised Liquid Liabilities (USD '000)		1,068,702	1,012,454	956,207
Revised Liquid Assets (USD '000)		248,257	192,009	135,762
Liquid Asset Ratio after shock	27.07%	23.23%	18.96%	14.20%

**Stress test hot money and retail money withdrawal**

	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
Limit	-20%	-40%	-50%	-50%	-25%	-20%	-10%	-5%
Unstressed	-4%	0%	-8%	-19%	-21%	-16%	-10%	0%
Scenario I	-36%	-26%	-24%	-22%	-23%	-18%	-12%	0%
Scenario II	-39%	-27%	-25%	-22%	-23%	-18%	-12%	0%
Scenario III	-43%	-31%	-27%	-24%	-24%	-18%	-12%	0%



## NOTES TO THE FINANCIAL STATEMENTS

### MARKET RISK

Market risk is potential losses arising from changes in earnings, market or future cash flows of a portfolio of financial instruments resultant from adverse movements in market variables such as interest rates, share prices, foreign exchange rates and bond and commodity prices. Most of the Bank's operations are exposed to at least one or more elements of market risk. The market risk stems primarily from the interest rate risk of its trading and non-trading books and from exposure to gold prices due to its pawning portfolio.

At Board level, exposure to market risk is monitored by the BIRMC which is also responsible for providing recommendations to the Board on the Bank's market risk management framework, policies and risk appetite limits. The ALCO is vested with the responsibility of implementing the market risk management framework at an executive level and ensures that the Bank's market risk exposures are within the defined risk appetite. Policies governing the Bank's market risk include the Asset and liability management policy, Treasury management policy, Foreign exchange risk policy and policy on stress testing. These frameworks collectively provide guidance on the systems, procedures, tools and techniques for the identification, assessment, mitigation, monitoring and reporting on all market related risks. The policies are reviewed and updated regularly in view of emerging market risks. The management of market risk is entrusted to the Bank's Treasury and risk management ensures the same through its monitoring and analysis.

The principal tool used to measure and control market risk exposure within the Bank's trading portfolio is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based on a 99% confidence level and assumes a 1 day holding period. The VaR model used is based mainly on variance co variance method.

The Bank uses VaR limits for market risks, specifically foreign exchange, interest rate, and other price risks. The overall structure of VaR limits is subject to review and approval by BIRMC. VaR limits are allocated to trading portfolios. VaR is measured and monitored against VaR limits at least daily by the Treasury Middle office, under the direction of the Risk Management Department.

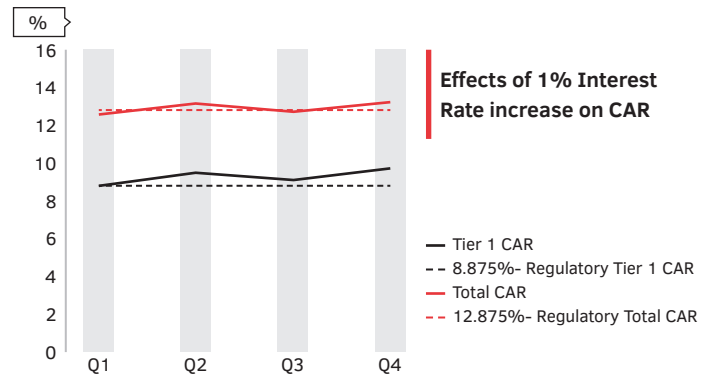
### INTEREST RATE RISK

Interest rate risk is the potential loss to earnings and capital resulting from the Bank's exposure to interest rate sensitive assets. The market value of such assets fluctuates in line with changes in interest rates and credit spreads. The Bank's exposure to interest rate risk arises from its lending portfolio, trading securities and deposit liabilities.

Techniques used to measure interest rate risk include Duration Gap Analysis, VaR and Earnings at Risk. Rate sensitive assets and liabilities are mapped into time buckets based on their maturity period, in order to ascertain the duration gap and overall exposure to interest rate risk.

### Stress Test for Interest Rate Risk

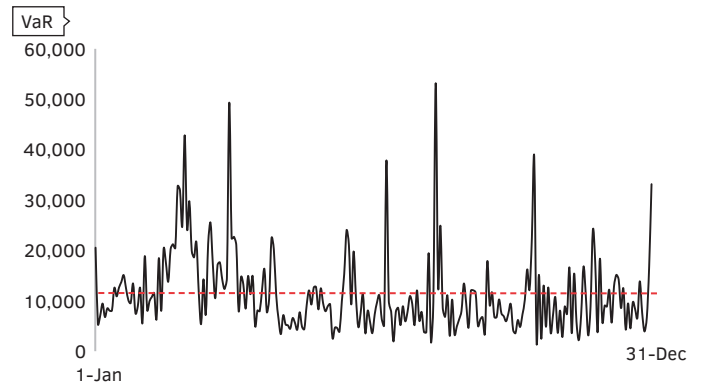
Revised CAR	Q1	Q2	Q3	Q4
Tier 1 CAR	8.73%	9.58%	9.08%	9.83%
Total CAR	12.49%	13.26%	12.70%	13.28%



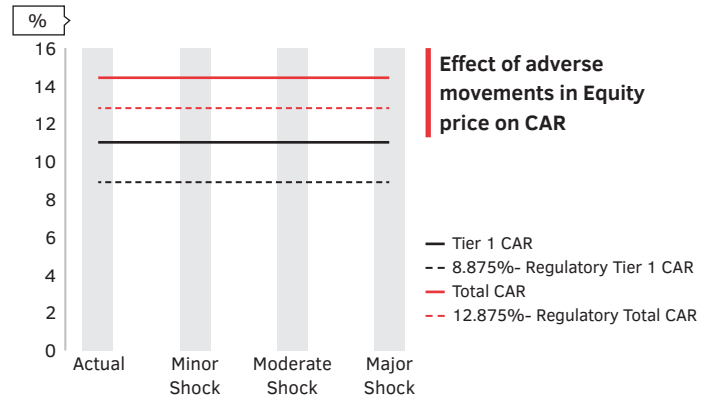
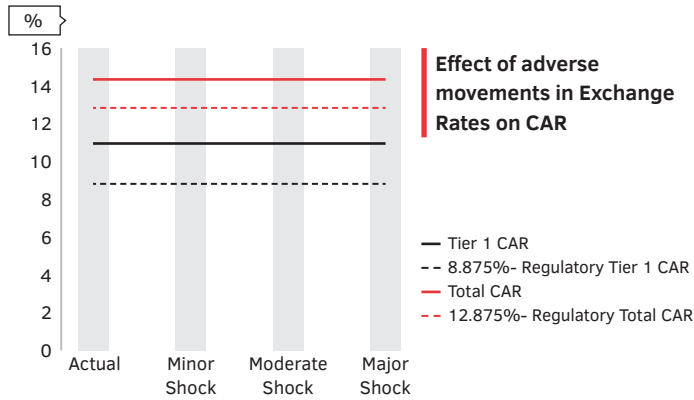
### FOREIGN EXCHANGE RISK

Foreign exchange risk (FOREX) is the potential impact to earnings and/or capital stemming from adverse fluctuations in exchange rates. Such exposure of the Bank stems from proprietary trading and from undertaking transactions denominated in foreign currency namely, import/export transactions and remittances etc.

The Bank also conducts VaR calculations and stress testing on the portfolios subject to forex risk. Parallel VaR calculations are performed by the Bank's Treasury Management System (based on Finacle) and the Bloomberg system. Stress testing is performed by applying rate shocks in order to gauge the potential impact on the Bank's profitability and capital adequacy levels.



**Exchange rate shock stress test**



	Min Req. 2018	Actual as at 31/12/2018	Minor	Moderate	Major
Magnitude of shock			5%	10%	15%
<b>Revised CAR %</b>					
Tier 1 capital as a % of RWA	8.875%	11.02%	11.00%	10.98%	10.96%
Total capital as a % of RWA	12.875%	14.47%	14.45%	14.43%	14.41%

**EQUITY RISK**

Equity risk arises from exposures to changes in fluctuations in the value of equity investments held by the Bank. This arises primarily from its available-for-sale investment portfolio and excludes strategic investments by the Bank in subsidiaries.

The BIBC (Board Investment Banking Committee) is responsible for formulating all investment related policies and ensuring that the Bank's investment risks are managed in line with its defined risk appetite. The Board approved Investment Banking Policy Manual clearly articulates the procedures, tools and techniques for managing equity risk as well as volume and stop loss limits.

	Min Req. 2018	Actual as at 31/12/2018	Minor	Moderate	Major
Magnitude of shock			5%	10%	20%
<b>Revised CAR %</b>					
Tier 1 capital ratio	8.875%	11.02%	11.01%	11.00%	10.99%
Total capital ratio	12.875%	14.47%	14.46%	14.45%	14.44%

**OPERATIONAL RISK**

Operational risk is the risk of losses arising from failed internal processes, systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Operational risks exist in the natural course of business activities, products and processes.

The Bank's Operational Risk management framework clearly articulates the policies, structures and processes in place to manage the different types of operational risk exposures. The Board of Directors, supported by the BIRMC is responsible for formulating policy and ensuring the robustness of the operational risk management framework. Loss events are recorded and periodically reported through the Risk Management Unit to the ORMC (Operational Risk Management Committee). Newly implemented Operational Risk Management System (which is partly rolled out at present) which is a part and parcel of the ongoing Data Ware House Project of the Bank facilitates the management of various aspects of operational risk in a prudent manner. Meanwhile, Internal Audit also provides assurance to the Board on the effectiveness on the operational risk management processes in place.

**CAPITAL MANAGEMENT**

The Bank's capital management framework has been designed taking into consideration regulatory requirements on capital as well as future growth aspirations and funding options available to the Bank.

The Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions based on the Basel framework. Since 1st July 2017, the Bank is required to comply with Basel III Guidelines. According to Basel III framework the Bank is required to maintain a CAR of not less than 8.875% with core capital (Tier I) and a minimum overall CAR of 12.875% as at 31.12.2018.

## NOTES TO THE FINANCIAL STATEMENTS

The details of the computation of the capital and the ratios as at 31st December 2017 and 31st December 2018 are given below.

## ON BALANCE SHEET EXPOSURES

As at 31st December	Balance		BANK		
	2018 Rs. '000	2017 Rs. '000	Risk Weight %	Risk weighted Balance 2018 Rs. '000	2017 Rs. '000
<b>Assets</b>					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	347,561,916	242,199,833	0-20	17,168,164	-
Claims on Foreign Sovereigns and their Central Banks	-	-	0-150	-	-
Claims on Public Sector Entities (PSEs)	100,309,295	16,175,771	20-150	42,988,197	11,311,791
Claims on Official Entities and Multilateral Development Banks(MDBs)	-	-	0-150	-	-
Claims on Banks	6,542,453	25,390,923	20-150	1,665,193	7,418,602
Claims on Financial Institutions	20,350,843	13,354,043	20-150	7,170,309	4,138,975
Claims on Corporates	162,601,331	138,136,979	20-150	148,099,702	123,760,332
Retail Claims	349,093,288	320,848,656	75-100	275,611,320	248,552,666
Claims Secured by Gold	149,826,584	136,485,146	20-100	1,030	365,762
Claims Secured by Residential Property	65,491,678	81,190,702	50-100	32,745,839	40,595,351
Claims Secured by Commercial Real Estate	-	-	100	-	-
Non-Performing Assets (NPAs)	15,502,259	7,364,951	50-150	21,262,647	9,673,122
High Risk Categories	750,573	631,345	150-250	1,876,434	1,578,363
Cash Items	50,952,722	39,045,329	0-20	113,880	333,429
Property, Plant & Equipment	27,985,546	26,753,689	100	27,985,546	26,753,689
Other Assets	18,682,343	20,874,876	100	18,682,343	20,874,876
<b>Total</b>	<b>1,315,650,834</b>	<b>1,068,452,243</b>		<b>595,370,603</b>	<b>495,356,958</b>

## OFF BALANCE SHEET EXPOSURES

As at 31st December	Balance		BANK		
	2018 Rs. '000	2017 Rs. '000	Credit Conversion Factor (%)	Risk weighted Balance 2018 Rs. '000	2017 Rs. '000
<b>Instruments</b>					
Direct Credit Substitutes	17,320,444	14,765,115	100	17,320,444	14,765,115
Transaction-related Contingencies	50,034,132	44,276,080	50	25,017,066	22,138,040
Short-Term Self-Liquidating Trade-Related Contingencies	127,592,317	44,929,701	20	25,518,463	8,985,940
Sale and Repurchase Agreements and Assets Sale with recourse where the credit risk remains with the Bank	-	-	100	-	-
Obligations under an On-going Underwriting Agreement	-	-	50	-	-
Other Commitments with an Original maturity of up to one year or which can be unconditionally cancelled at any time	39,154,403	30,100,985	0-20	7,830,881	6,020,197
Commitments with an original maturity up to 1 year	-	-	20	-	-
Other Commitments with an Original Maturity of over one year	-	-	50	-	-
Foreign Exchange Contracts	93,970,452	39,915,527	0-5	1,879,409	798,311
Interest Rate Contracts	-	-	0-3	-	-
<b>Total</b>	<b>328,071,748</b>	<b>173,987,408</b>		<b>77,566,263</b>	<b>52,707,603</b>



	BANK	
	2018 Rs. '000	2017 Rs. '000
<b>Computation of Capital</b>		
Common Equity Tier I (CET1) Capital	74,623,023	62,084,793
Total Tier 1 Capital	74,623,023	62,084,793
Total Capital	97,987,548	77,554,147
<b>Computation of Ratios</b>		
Total Risk Weighted Assets for Credit risk	595,370,603	495,356,958
Total Risk Weighted Assets for Market risk	7,552,947	5,252,085
Total Risk Weighted Assets for Operational risk	74,300,869	73,396,393
Total Risk Weighted Assets	677,224,419	574,005,436
<b>Common Equity Tier I (CET1) Capital Ratio (Minimum Requirement : 7.375%-2018, 6.25%-2017)</b>	<b>11.02</b>	<b>10.82</b>
<b>Total Tier1 Capital (Tier I) (Minimum Requirement : 8.875%-2018, 7.75%-2017)</b>	<b>11.02</b>	<b>10.82</b>
<b>Total Capital Ratio (Minimum Requirement : 12.875%-2018, 11.75%-2017)</b>	<b>14.47</b>	<b>13.51</b>

## ON BALANCE SHEET EXPOSURES

As at 31st December	GROUP				
	Balance		Risk Weight %	Risk weighted Balance	
	2018 Rs. '000	2017 Rs. '000		2018 Rs. '000	2017 Rs. '000
<b>Assets</b>					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	355,632,691	247,847,622	0-20	17,168,164	-
Claims on Foreign Sovereigns and their Central Banks	-	-	0-150	-	-
Claims on Public Sector Entities (PSEs)	100,309,295	16,175,771	20-150	42,988,197	11,311,791
Claims on Official Entities and Multilateral Development Banks(MDBs)	-	-	0-150	-	-
Claims on Banks	11,458,612	31,130,358	20-150	3,775,409	9,102,400
Claims on Financial Institutions	9,559,550	5,529,958	20-150	5,012,050	2,862,347
Claims on Corporates	164,561,157	138,201,793	20-150	150,059,528	123,825,146
Retail Claims	509,434,965	460,308,151	75-100	435,952,997	388,012,161
Claims Secured by Gold	149,826,584	136,485,146	20-100	1,030	365,762
Claims Secured by Residential Property	66,201,363	81,190,702	50-100	33,100,682	40,595,351
Claims Secured by Commercial Real Estate	-	-	100	-	-
Non-Performing Assets (NPAs)	15,502,259	7,364,951	50-150	21,262,647	9,673,122
High Risk Categories	-	-	150-250	-	0
Cash Items	51,737,246	39,678,140	0-20	113,880	333,429
Property, Plant & Equipment	36,155,991	34,419,363	100	36,155,991	34,419,361
Other Assets	20,283,149	22,226,973	100	20,283,149	22,226,973
<b>Total</b>	<b>1,490,662,862</b>	<b>1,220,558,928</b>		<b>765,873,724</b>	<b>642,727,843</b>

## NOTES TO THE FINANCIAL STATEMENTS

## OFF BALANCE SHEET EXPOSURES

As at 31st December	GROUP				
	Balance		Credit Conversion Factor (%)	Risk weighted Balance	
	2018 Rs. '000	2017 Rs. '000		2018 Rs. '000	2017 Rs. '000
<b>Instruments</b>					
Direct Credit Substitutes	18,066,868	14,765,115	100	18,066,868	14,765,115
Transaction-related Contingencies	50,034,132	44,276,080	50	25,017,066	22,138,040
Short-Term Self-Liquidating Trade-Related Contingencies	127,592,317	44,929,701	20	25,518,463	8,985,940
Sale and Repurchase Agreements and Assets Sale with recourse where the credit risk remains with the Bank	-	-	100	-	-
Obligations under an On-going Underwriting Agreement	-	-	50	-	-
Other Commitments with an Original maturity of up to one year or which can be unconditionally cancelled at any time	-	-	0-20	-	-
Commitments with an original maturity up to 1 year	45,221,413	30,100,985	20	9,044,283	-
Other Commitments with an Original Maturity of over one year	-	-	50	-	-
Foreign Exchange Contracts	93,970,452	39,915,527	0-5	1,879,409	798,311
Interest Rate Contracts			0-3		
<b>Total</b>	<b>334,885,182</b>	<b>173,987,408</b>		<b>79,526,089</b>	<b>52,707,603</b>

	GROUP	
	2018 Rs. '000	2017 Rs. '000
<b>Computation of Capital</b>		
Common Equity Tier I (CET1) Capital	101,088,945	85,077,314
Total Tier 1 Capital	101,088,945	85,077,314
Total Capital	125,548,973	101,485,801
<b>Computation of Ratios</b>		
Total Risk Weighted Assets for Credit risk	765,873,724	642,727,843
Total Risk Weighted Assets for Market risk	8,030,076	6,208,014
Total Risk Weighted Assets for Operational risk	93,317,446	91,223,325
Total Risk Weighted Assets	867,221,246	740,159,182
<b>Common Equity Tier I (CET1) Capital Ratio (Minimum Requirement : 7.375%-2018, 6.25%-2017)</b>	<b>11.66</b>	11.49
<b>Total Tier1 Capital (Tier I) (Minimum Requirement : 8.875%-2018, 7.75%-2017)</b>	<b>11.66</b>	11.49
<b>Total Capital Ratio (Minimum Requirement : 12.875%-2018, 11.75%-2017)</b>	<b>14.48</b>	13.71

# OTHER INFORMATION

## INCOME STATEMENT US\$

For the Year ended 31st December	BANK			GROUP		
	2018 US \$ '000	2017 US \$'000	Change %	2018 US \$ '000	2017 US \$'000	Change %
<b>Gross Income</b>	<b>1,014,883</b>	1,047,446	-3.1	<b>1,197,039</b>	1,229,917	-2.7
Interest Income	933,886	971,569	-3.9	1,093,101	1,132,012	-3.4
Interest Expenses	(605,920)	(642,909)	-5.8	(679,166)	(723,380)	-6.1
<b>Net Interest Income</b>	<b>327,966</b>	328,661	-0.2	<b>413,935</b>	408,633	1.3
Fee and Commission Income	37,961	33,428	13.6	42,641	37,572	13.5
Fee and Commission Expense	(1,983)	(1,698)	16.8	(1,983)	(1,698)	16.8
<b>Net Fee and Commission Income</b>	<b>35,977</b>	31,730	13.4	<b>40,657</b>	35,874	13.3
Net Gain/(Loss) from Trading	24,857	18,119	37.2	24,380	18,335	33.0
Other Operating Income (Net)	18,179	24,330	-25.3	36,918	41,997	-12.1
<b>Total Operating Income</b>	<b>406,980</b>	402,839	1.0	<b>515,890</b>	504,839	2.2
Impairment Charge	(39,932)	(8,782)	354.7	(48,137)	(19,862)	142.4
<b>Net Operating Income</b>	<b>367,048</b>	394,057	-6.9	<b>467,753</b>	484,977	-3.6
Personnel Expenses	(108,621)	(99,169)	9.5	(130,329)	(120,097)	8.5
Other Expenses	(84,065)	(85,278)	-1.4	(115,855)	(122,231)	-5.2
<b>Operating Profit Before Value Added Tax (VAT) , Nation Building Tax (NBT) and Debt Repayment Levy (DRL)</b>	<b>174,362</b>	209,610	-16.8	<b>221,569</b>	242,649	-8.7
Value Added Tax (VAT) , Nation Building Tax (NBT) and Debt Repayment Levy (DRL) on Financial Services	(41,175)	(40,850)	0.8	(51,519)	(48,130)	7.0
<b>Profit Before Tax</b>	<b>133,187</b>	168,760	-21.1	<b>170,050</b>	194,519	-12.6
Income Tax Expenses	(39,899)	(49,908)	-20.1	(52,766)	(60,941)	-13.4
<b>Profit for the Year</b>	<b>93,287</b>	118,852	-21.5	<b>117,283</b>	133,578	-12.2
<b>Profit Attributable to :</b>						
Equity Holders of the Bank	93,287	118,852	-21.5	109,020	125,664	-13.2
Non-Controlling Interests	-	-		8,263	7,914	4.4
	<b>93,287</b>	118,852	-21.5	<b>117,283</b>	133,578	-12.2

Exchange Rate : 1 US \$ was Rs. 183.25 as at 31st December 2018 (Rs.153.55 as at 31st December 2017)

The Income Statement and the Statement of Financial Position given on pages 266 and 267 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.

## STATEMENT OF FINANCIAL POSITION US\$

As at 31st December	BANK			GROUP		
	2018 US \$ '000	2017 US \$ '000	Change %	2018 US \$ '000	2017 US \$ '000	Change %
<b>Assets</b>						
Cash and Cash Equivalents	315,852	449,092	-29.7	321,065	453,761	-29.2
Balances with Central Bank of Sri Lanka	281,669	427,804	-34.2	281,669	427,804	-34.2
Placements with Banks	23,742	87,650	-72.9	49,638	123,374	-59.8
Derivative Financial Instruments	6,349	2,177	191.7	6,349	2,177	191.7
Other Financial Assets Held-for-Trading	-	345,442	-	-	347,476	-
Financial Assets - At Fair Value through Profit or Loss	294,966	-	-	296,318	-	-
Loans and Receivables to Banks	175,538	560,713	-68.7	177,635	562,918	-68.4
Loans and Receivables to Other Customers	6,906,780	6,594,873	4.7	7,726,753	7,448,823	3.7
Debt instruments measured at amortised cost	1,100,412	-	-	1,144,317	-	-
Financial Investments - Held-to-Maturity	-	731,690	-	-	762,864	-
Equity instruments at fair value through OCI	6,439	-	-	6,439	-	-
Debt instruments at fair value through OCI	25,819	-	-	25,955	-	-
Financial Investments - Available-for-Sale	-	22,243	-	-	29,202	-
Investments in Subsidiaries	5,607	8,634	-35.1	-	-	-
Goodwill and Intangible Assets	2,398	1,466	63.6	4,745	4,426	7.2
Property, Plant and Equipment	143,300	163,123	-12.2	193,366	219,850	-12.0
Investment Properties	6,902	7,960	-13.3	959	1,156	-17.0
Prepaid Leases	2,516	3,151	-20.2	2,979	3,151	-5.5
Other Assets	168,031	148,520	13.1	176,766	157,326	12.4
<b>Total Assets</b>	<b>9,466,319</b>	<b>9,554,537</b>	<b>-0.9</b>	<b>10,414,954</b>	<b>10,544,309</b>	<b>-1.2</b>
<b>Liabilities</b>						
Due to Banks	753,241	525,408	43.4	939,961	655,347	43.4
Derivative Financial Instruments	13,709	1,784	668.3	13,709	1,784	668.3
Due to Other Customers	7,765,136	8,101,614	-4.2	8,160,035	8,502,936	-4.0
Other Borrowings	194,137	158,782	22.3	191,446	219,046	-12.6
Current Tax Liabilities	21,851	26,473	-17.5	27,695	28,442	-2.6
Net Deferred Tax Liabilities	21,582	29,017	-25.6	40,095	47,392	-15.4
Other Liabilities	130,530	125,406	4.1	187,452	184,828	1.4
Subordinated Term Debts	68,398	81,613	-16.2	180,543	211,318	-14.6
<b>Total Liabilities</b>	<b>8,968,584</b>	<b>9,050,097</b>	<b>-0.9</b>	<b>9,740,937</b>	<b>9,851,094</b>	<b>-1.1</b>
<b>Equity</b>						
Stated Capital/Assigned Capital	66,587	79,466	-16.2	66,587	79,466	-16.2
Statutory Reserve Fund	36,396	37,869	-3.9	36,396	37,869	-3.9
Other Reserves	141,932	163,580	-13.2	152,945	175,277	-12.7
Retained Earnings	252,821	223,525	13.1	362,862	339,898	6.8
<b>Total Shareholders' Equity</b>	<b>497,735</b>	<b>504,440</b>	<b>-1.3</b>	<b>618,790</b>	<b>632,510</b>	<b>-2.2</b>
Non-Controlling Interests	-	-	-	55,226	60,705	-9.0
<b>Total Equity</b>	<b>497,735</b>	<b>504,440</b>	<b>-1.3</b>	<b>674,016</b>	<b>693,215</b>	<b>-2.8</b>
<b>Total Equity and Liabilities</b>	<b>9,466,319</b>	<b>9,554,537</b>	<b>-0.9</b>	<b>10,414,954</b>	<b>10,544,309</b>	<b>-1.2</b>
<b>Contingent Liabilities and Commitments</b>	<b>2,197,882</b>	<b>1,975,540</b>	<b>11.3</b>	<b>2,235,064</b>	<b>1,980,475</b>	<b>12.9</b>

Exchange Rate : 1 US \$ was Rs. 183.25 as at 31st December 2018 (Rs.153.55 as at 31st December 2017)

The Income Statement and the Statement of Financial Position given on pages 266 and 267 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.



## TEN YEAR SUMMARY - GROUP

(Sri Lanka Rs. Mn)	2009	2010	based on new SLASs							2018
			2011	2012	2013	2014	2015	2016	2017	
<b>Assets</b>										
Cash & Short Term Funds	74,105	46,257	54,583	69,515	61,174	83,003	76,840	129,458	135,364	110,451
Investments	94,257	126,105	130,333	176,138	229,280	300,366	311,141	258,049	280,357	311,581
Loans & Receivables ( Net)	307,193	407,050	534,875	690,197	710,074	722,099	869,781	1,013,921	1,143,767	1,415,928
Property, Plant & Equipments	8,170	8,227	9,933	10,923	18,184	19,364	22,696	23,441	33,758	35,434
Other Assets	17,345	15,825	14,665	14,087	12,760	14,425	14,279	19,528	25,833	35,147
<b>Total Assets</b>	<b>501,070</b>	<b>603,465</b>	<b>744,389</b>	<b>960,860</b>	<b>1,031,473</b>	<b>1,139,258</b>	<b>1,294,737</b>	<b>1,444,398</b>	<b>1,619,079</b>	<b>1,908,540</b>
<b>Liabilities</b>										
Customer Deposits	396,228	481,094	572,722	708,897	789,225	829,019	932,906	1,119,753	1,305,626	1,495,326
Borrowings	52,893	69,716	101,028	174,728	140,865	193,825	225,795	172,419	134,263	207,330
Other Liabilities	24,483	21,518	21,906	21,486	23,153	27,469	32,328	30,509	40,299	49,285
Subordinated Term Debts	5,246	5,000	10,000	10,000	23,141	24,883	30,907	36,526	32,448	33,085
<b>Total Liabilities</b>	<b>478,849</b>	<b>577,327</b>	<b>705,656</b>	<b>915,111</b>	<b>976,384</b>	<b>1,075,196</b>	<b>1,221,937</b>	<b>1,359,207</b>	<b>1,512,635</b>	<b>1,785,027</b>
Total Equity	22,221	26,138	38,734	45,749	55,088	64,062	72,801	85,191	106,443	123,513
<b>Total Equity &amp; Liabilities</b>	<b>501,070</b>	<b>603,465</b>	<b>744,389</b>	<b>960,860</b>	<b>1,031,473</b>	<b>1,139,258</b>	<b>1,294,737</b>	<b>1,444,398</b>	<b>1,619,079</b>	<b>1,908,540</b>
Contingent Liabilities and Commitments	100,867	131,398	191,045	208,570	197,376	182,597	181,545	226,442	304,102	409,575
<b>Operating Results</b>										
Gross Income	75,560	70,928	79,900	109,974	139,957	118,641	123,831	144,750	188,854	219,357
Total Operating Income	34,069	36,998	42,163	49,618	55,576	54,308	67,635	68,429	77,518	94,537
Total Overheads	21,380	23,386	22,669	27,304	27,264	32,779	38,346	41,633	44,600	54,554
Profit before Tax	7,891	11,370	18,843	17,671	13,412	21,628	24,121	25,433	29,868	31,162
Income Tax	3,717	4,788	6,319	5,775	4,248	4,674	9,053	7,477	9,358	9,669
Profit after Tax	4,174	6,583	12,524	11,897	9,164	16,953	15,068	17,956	20,511	21,492
<b>Performance Indicators</b>										
Number of Employees	9,327	9,435	9,723	8,905	9,384	10,331	10,682	10,471	11,396	11,368
<b>Per Employee (Sri Lanka Rs. '000)</b>										
Deposits	42,482	50,990	58,904	79,607	84,103	80,246	87,334	106,939	114,569	131,538
Loans & Receivables	32,936	43,143	55,011	77,507	75,669	69,896	81,425	96,831	100,366	124,554
Gross Earnings	8,101	7,517	8,218	12,350	14,914	11,484	11,592	13,824	16,572	19,296
Profit after Tax	447	698	1,288	1,336	977	1,641	1,411	1,715	1,800	1,891
Return on Assets % (before tax)	1.7	2.1	2.8	2.1	1.3	2.0	2.0	1.9	1.9	1.8
Return on Equity %	20.0	27.2	38.6	28.2	18.2	28.5	22.0	22.7	21.4	18.7
Cost/Income Ratio %	62.8	63.2	53.8	55.0	49.1	60.4	56.7	60.8	57.5	57.7
Capital Adequacy Ratio (CAR) %	13.9	12.8	15.7	15.7	15.9	14.9	13.8	13.0	13.7	14.5
Non Performing Loan (NPL) Ratio (Gross) %	6.4	4.6	2.9	2.6	4.9	3.2	2.4	1.9	2.0	2.7

## BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

### CAPITAL ADEQUACY

Capital adequacy is one of the key financial indicators which illustrate the soundness and the stability of a bank. This measures banks ability to withstand in an unexpected loss scenarios during various activities carried out by the bank.

Basle committee on Bank supervision (BCBS) has implemented set of stringent measures of capital, liquidity and funding reforms. Accordingly BASLE III accord was issued in December 2010 and it has come into force and effect in Sri Lanka on July 1, 2017 based on the Central Bank direction 01 of 2016 on capital requirement under BASLE III for licensed commercial banks. This replaces Basel II reforms which were in force and effect in Sri Lanka since January 1, 2008 onwards.

Commencing from 01st July 2017, every LCB and LSB has to comply with three tiers of capital ratios and banks has to comply these requirements on a staggered basis which outlined below.

	01.07.2017	01.01.2018	01.01.2019
Common Equity Tier I Capital Ratio (CETI)	6.25%	7.375%	8.5%
Total Tier I Capital Ratio (CET I+ AT I)	7.75%	8.875%	10.0%
Total Capital Ratio	11.75%	12.875%	14.0%

Common Equity Tier I (CET I) is mainly comprised of equity capital, other capital and retained earnings. CET I is the highest quality and effective capital in absorbing losses.

Additional Tier I capital includes capital instruments other than the instruments included in CET I capital.

Total capital comprised of Tier I plus other qualifying capital instruments; for the avoidance of any doubt, subordinated debentures subject to regulatory deduction, revaluation reserves on property plant and equipment with a cap of 50% and general loan loss provision

BASLE III has introduced new capital buffers and all banks are required to hold additional capital over and above minimum CET I , Tier I and Total Capital Adequacy levels. The above minimum requirements on capital includes the below mentioned additional buffer requirements as well

- ◆ Capital Conservation Buffer
- ◆ Surcharge of Domestically Significant Banks (D-SIBs) - Banks with Total assets of Rs 500 Bn and above
- ◆ Counter Cyclical Buffer

Three pillars introduced by BASLE II is continued to be applied in the BASLE III framework is mentioned below.

- ◆ **Pillar I** - Minimum Capital Requirements
- ◆ **Pillar II** - Supervisory Review Process
- ◆ **Pillar III** - Market Discipline

### Pillar I - Minimum Capital Requirement

Minimum Capital Requirement shall maintain as a percentage of Risk Weighted Assets (RWAs) and bank calculated its RWAs based on following approaches.

- ◆ The Standardized Approach for Credit Risk
- ◆ The Standardized Measurement Method for Market Risk
- ◆ The Basic Indicator Approach for Operational Risk



**Pillar II – Supervisory Review Process (SRP)**

SRP framework assesses the bank's capital adequacy and determining whether bank is maintaining additional capital to cover its risks. Bank has developed an ICAAP (Internal Capital Adequacy Assessment Process) framework in this regard, which closely indicates risks and capital assessment processes to support the Bank's current and projected demand for capital under unexpected and stressed conditions.

**Pillar III – Market Discipline**

Pillar III aims to provide consistent and comprehensive disclosure framework which enhances the comparability between banks. It requires number of disclosure requirements to give better understanding of capital adequacy to external share holders by providing an insight into the internal computation procedures followed by the bank.

Accordingly disclosures required to be published as per the Central Bank Direction 01 of 2016 are set out below.

**BASEL III DISCLOSURE REQUIREMENT****Template 01 : KEY REGULATORY RATIO - CAPITAL AND LIQUIDITY**

	BANK		GROUP	
	As at 31st December 2018	As at 31st December 2017	As at 31st December 2018	As at 31st December 2017
<b>Regulatory Capital (Rs. 000)</b>				
Common Equity Tier 1 Capital	74,623,023	62,084,793	101,088,945	85,077,314
Total Tier I Capital	74,623,023	62,084,793	101,088,945	85,077,314
Total Capital	97,987,548	77,554,148	125,548,973	101,485,804
<b>Regulatory Capital Ratio (%)</b>				
Common Equity Tier I Capital Ratio (Minimum Requirement 2018 -7.375%, 2017-6.25%)	11.02	10.82	11.66	11.49
Total Tier I Capital (Minimum Requirement 2018-8.875%, 2017-7.75%)	11.02	10.82	11.66	11.49
Total Capital (Minimum Requirement 2018-12.875%, 2017-11.75%)	14.47	13.51	14.48	13.71
<b>Regulatory Liquidity</b>				
Statutory Liquid Assets - Bank				
Domestic Banking Unit (Rs '000 )	337,865,692	298,497,361	NA	NA
Off - Shore Banking Unit (USD '000)	303,616	242,692	NA	NA
Statutory Liquid Assets - (minimum requirement 20%)				
Domestic Banking Unit (%)	23.01	24.07	NA	NA
Off - Shore Banking Unit (%)	30.36	32.35	NA	NA
Liquidity Coverage Ratio (%) Rupee (minimum requirement - 2018 - 90%, 2017- 80% )	144.90	104.00	NA	NA
Liquidity Coverage Ratio (%) All currency	100.42	95.08	NA	NA

## BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

### BASEL III DISCLOSURE REQUIREMENT

#### Template 02 : BASEL III - COMPUTATION OF CAPITAL RATIOS

	BANK		GROUP	
	As at 31st December 2018	As at 31st December 2017	As at 31st December 2018	As at 31st December 2017
<b>Common Equity Tier 1 (CET I) Capital after adjustments</b>	<b>74,623,023</b>	62,084,793	<b>101,088,945</b>	85,077,315
<b>Common Equity Tier 1 (CET I) Capital</b>	<b>77,449,928</b>	63,359,558	<b>103,911,483</b>	85,756,976
Equity / Assigned Capital	<b>12,201,998</b>	12,201,998	<b>12,201,998</b>	12,201,998
Reserve Fund	<b>6,669,488</b>	5,814,742	<b>6,669,488</b>	5,814,742
Public Retained Earning / (Accumulated Retained Losses)	<b>46,673,579</b>	34,322,199	<b>67,268,479</b>	52,236,152
Publish accumulated Other Comprehensive Income (OCI)	<b>78,262</b>	67,882	<b>78,262</b>	81,875
General and other Disclosed Reserves	<b>11,826,601</b>	10,952,737	<b>12,098,979</b>	10,946,111
Unpublished Current Year's Profit / Loss and Gain reflected in OCI	-	-	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	<b>5,594,277</b>	4,476,098
<b>Total Adjustments to CETI Capital</b>	<b>2,826,905</b>	1,274,765	<b>2,822,538</b>	679,661
Goodwill (net)	-	-	-	-
Intangible Assets (Net)	<b>439,517</b>	225,058	<b>869,469</b>	679,661
Other ( Investment the in the Capital of Subsidiaries & Other Financial Institution	<b>2,387,388</b>	1,049,707	<b>1,953,069</b>	-
<b>Additional Tier I (AT i) Capital after adjustments</b>	-	-	-	-
<b>Additional Tier I (AT i) Capital</b>	-	-	-	-
Qualifying additional Tier I Capital instruments	-	-	-	-
Instrument issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
<b>Total Adjustments to AT I Capital</b>	-	-	-	-
Investment in own shares	-	-	-	-
Other ( Specify )	-	-	-	-
<b>Tier II Capital after adjustments</b>	<b>23,364,525</b>	15,469,355	<b>24,460,028</b>	16,408,487
<b>Tier II Capital</b>	<b>23,364,525</b>	15,469,355	<b>24,460,028</b>	16,408,487
Qualifying Tier II capital instruments	<b>7,125,000</b>	480,000	<b>7,125,000</b>	480,000
Revaluation Gains	<b>8,797,393</b>	8,797,393	<b>8,797,393</b>	8,797,393
Loan Loss Provisions	<b>7,442,133</b>	6,191,962	<b>8,537,635</b>	7,131,094
Instrument issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
<b>Total Adjustment to Tier II</b>	-	-	-	-
Investment in own shares	-	-	-	-
Other (specify)	-	-	-	-
<b>CET Capital</b>	<b>74,623,023</b>	62,084,793	<b>101,088,945</b>	85,077,315
<b>Total Tier I Capital</b>	<b>74,623,023</b>	62,084,793	<b>101,088,945</b>	85,077,315
<b>Total Capital</b>	<b>97,987,548</b>	77,554,148	<b>125,548,973</b>	101,485,802

	BANK		GROUP	
	As at 31st December 2018	As at 31st December 2017	As at 31st December 2018	As at 31st December 2017
<b>Total Risk Wighted Assets (RWA)</b>	<b>677,224,419</b>	574,005,436	<b>867,221,246</b>	740,159,181
RWA for Credit Risk ( refer table No 3)	<b>595,370,603</b>	495,356,958	<b>765,873,723</b>	642,727,842
RWA for Operational Risk ( refer table No 5)	<b>74,300,869</b>	73,396,393	<b>93,317,447</b>	91,223,325
RWA for Market Risk ( refer table No 6)	<b>7,552,947</b>	5,252,085	<b>8,030,076</b>	6,208,014
<b>CET I Capital Ratio (including Capital Conservstion Buffer, Countercyclical Capital Buffer &amp; Surcharge on D-SIB) (%)</b>	<b>11.02</b>	10.82	<b>11.66</b>	11.49
of which: Capital Conservation Buffer (%)	<b>1.875</b>	1.25	<b>1.875</b>	1.25
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital surcharge Countercyclical Buffer (%)	<b>1.00</b>	0.50	<b>1.00</b>	0.50
<b>Total Tier I Capital Ratio (%)</b>	<b>11.02</b>	10.82	<b>11.66</b>	11.49
<b>Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer &amp; Surcharge on D-SIBs) (%)</b>	<b>14.47</b>	13.51	<b>14.48</b>	13.71
of which: Capital Conservation Buffer (%)	<b>1.875</b>	1.25	<b>1.875</b>	1.25
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital surcharge on D-SIBs (%)	<b>1.00</b>	0.50	<b>1.00</b>	0.50

**Note:**

First Day Impact on Adoption of SLFRS 09 to the Bank and Group is Rs 456,894 Mn and Rs 1,053,401 Mn respectively. As per the Guidelines to Licensed Banks on the adoption of SLFRS 09 issued by the Central Bank of Sri Lanka, the First day impact can be recognized throughout a transitional period of Four Years hence 25% of impact is recognized during year 2018. If the first day impact is adjusted fully for the current Year the Capital Adequacy Ratio of the Bank and the Group be 14.42% and 14.39% respectively.

**Template 03 : Computation of Leverage Ratio**

	BANK		GROUP	
	As at 31st December 2018	As at 31st December 2017	As at 31st December 2018	As at 31st December 2017
Tier I Capital	<b>74,623,023</b>	62,084,793	<b>101,088,945</b>	85,077,315
Total Exposure	<b>1,808,606,489</b>	1,512,405,947	<b>1,985,824,469</b>	1,664,980,535
On balance Sheet items ( Excluding derivatives and securities financing transactions, but including collateral)	<b>1,709,800,708</b>	1,406,635,113	<b>1,886,628,389</b>	1,558,871,099
Deravitive Exposures	<b>3,135,654</b>	1,026,739	<b>3,135,654</b>	1,026,739
Securities financing transaction exposures	<b>18,000,000</b>	58,855,000	<b>18,390,299</b>	59,193,602
Other off-balance sheet exposures	<b>77,670,127</b>	45,889,095	<b>77,670,127</b>	45,889,095
Basel III Leverage ratio (%) (Tier I capital/ Total Exposure)	<b>4.13%</b>	4.11%	<b>5.08%</b>	5.11%

Leverage ratio is prepared based on Central Bank direction no 12 of 2018 and the minimum ratio is 3%.

## BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

### BASEL III DISCLOSURE REQUIREMENT

#### Template 04 : Computation of Liquidity Coverage Ratio

	AS AT 31ST DECEMBER 2018		AS AT 31ST DECEMBER 2017	
	Total Un Weighted Value	Total Weighted Value	Total Un Weighted Value	Total Weighted Value
<b>Total Stock of High-Quality Liquid Assets (HQLA)</b>	<b>303,195,792</b>	<b>303,919,749</b>	209,576,585	210,556,463
<b>Total Adjusted Level 1A Assets</b>	<b>300,973,640</b>	<b>300,973,640</b>	205,608,413	205,608,414
<b>Level 1 Assets</b>	<b>302,283,687</b>	<b>302,283,687</b>	207,515,715	207,515,715
<b>Total Adjusted Level 2A Assets</b>	<b>1,499,960</b>	<b>1,274,966</b>	3,019,035	2,566,180
<b>Level 2A Assets</b>	<b>1,499,960</b>	<b>1,274,966</b>	3,019,035	2,566,180
<b>Total Adjusted Level 2B Assets</b>	<b>722,192</b>	<b>361,096</b>	949,137	474,568
<b>Level 2B Assets</b>	<b>722,192</b>	<b>361,096</b>	949,137	474,568
<b>Total Cash Outflows</b>	<b>1,808,148,158</b>	<b>419,217,632</b>	1,542,394,880	336,276,533
Deposits	964,258,606	96,425,861	867,812,307	86,781,231
Unsecured Wholesale Funding	501,902,159	252,564,530	388,276,563	204,161,629
Secured Funding Transactions	8,221,306	-	17,998,855	-
Undrawn Portion of Committed (Irrevocable)Facilities and Other Contingent Funding Obligations	286,321,471	22,782,625	247,268,129	24,294,647
Additional requirements	47,444,616	47,444,616	21,039,026	21,039,026
<b>Total Cash Inflows</b>				
Maturing Secured Lending Transactions Backed by Collateral	186,469,947	116,564,250	186,923,677	114,816,052
	31,225,082	13,102,046	47,175,521	8,833,348
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	-	-	-	-
	108,719,198	59,789,955	120,686,939	92,323,766
Operational deposits	2,853,418	-	4,568,707	-
Other Cash Inflows	43,672,249	43,672,249	14,492,510	13,658,938
<b>Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next Calendar Days)* 100</b>		<b>100.42</b>		95.08

**BASEL III DISCLOSURE REQUIREMENT****Template 05 : Main Features of Regulatory Capital Instruments**

	No 2 Debenture issued in 2009	No 3 Debenture issued in 2011	No 4 Debenture issued in 2013
Must be provided for each type of capital instrument separately			
<b>Description of the Capital Instrument</b>			
Issuer	People's Bank	People's Bank	People's Bank
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private placement)	2	3	4
Original Date of Issuance	30 th December 2009	30 th December 2011	15 th December 2013
Par Value of Instrument	N/A	N/A	N/A
Original Maturity Date, if Applicable	29 th December 2022	29 th December 2022	29 th December 2022
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting date)	2,500,000,000	5,000,000,000	5,000,000,000
Accounting Classification (Equity/Liability)	Liability	Liability	Liability
<b>Issuer Call subject to Prior Supervisory Approval</b>			
Optional Call Date, Contingent Call dates and Redemption Amount (LKR '000)	N/A	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A
<b>Coupons/Dividends</b>			
Fixed or Floating Dividend/Coupon	Fixed rate	Fixed rate	Fixed rate
Coupon rate and any Related Index	13.50%	13%	13%
Non-Cumulative or Cumulative	N/A	N/A	N/A
<b>Convertible or Non-Convertible</b>			
If Convertible, Conversion trigger (s)	Non-convertible	Non-convertible	Non-convertible
If Convertible, Fully or Partially	N/A	N/A	N/A
If Convertible, Mandatory or Optional	N/A	N/A	N/A
If Convertible, Conversion rate	N/A	N/A	N/A

## BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

### Template 6

#### Summary discussion on the adequacy/ meeting current and future capital requirements

##### Overview

- ◆ In accordance with CBSL stipulations, the Bank carries out an Internal Capital Adequacy Assessment Process annually. The assessment covers a five (5) year time horizon. The last carried out was for 2018-2023

##### Material exposures

- ◆ Close to 40% of the Bank's total loan book is composed of exposures to the State and State Owned Enterprises. Those extended to State Owned Enterprises in most part are backed by an irrevocable sovereign undertaking by way of a guarantee/ indemnity or other form of government assurance
- ◆ Leaving aside such sovereign backed exposures, the Bank's single largest non sovereign exposure does not account for over 2% of its total loan book
- ◆ The Bank's industry sector exposures are also relatively diverse

##### Initiatives taken to bolster regulatory capital during 2017 & 2018

During both 2017 & 2018 - the Bank has undertaken several initiatives in order to bolster its regulatory capital. These have included amongst other

##### 2017

- a. Raised LKR 5.0 billion from General Treasury, Ministry of Finance on July 21, 2017. This was first received over the last eight (8) years
- b. Reduced its dividend payout by LKR 3.0 billion being from LKR 8.2 billion in 2016 to LKR 5.2 billion in 2017
- c. Revalued all its land & buildings on July 1, 2017. This enabled the Bank recognize close to LKR 3.6 billion in Tier II Capital with requisite regulatory approval. The next revaluation is set to be carried out on July 1, 2020
- d. Ensured additional facilities extended to State Owned Enterprises are sovereign backed and, in case of other government assurances, they are routed through the Monetary Board of the Central Bank of Sri Lanka for prior approval

##### 2018

- a. Further reduced its dividend payout to LKR 3.4 billion in 2018 from LKR 5.2 billion in 2017
  - b. Highly risk measured/ controlled growth in loan book during 2018
- ◆ As a result thereto, the Bank was able to successfully meet all Basel III Risk Control measures during both 2017 & 2018 as applicable without any exception whatsoever, be Capital Adequacy Ratio, Liquidity Coverage Ratio, Net Stable Funding and Leverage

##### Future plan and priority

- ◆ The Bank is continuously in the process of undertaking several initiatives with the objects of bolstering its regulatory capital from current levels
- ◆ The single most important of them all is the process of amending the People's Bank Act No 29 of 1961 (hereinafter 'the Act') primarily in relation to the issuance of Debentures. As it currently stands, the Act necessitates a Treasury Guarantee be obtained every time the Bank issues a Debenture - including for its regulatory capital purposes. This naturally has limited the Bank's ability to issue Debentures with ease. Needless to say, this is the single most impeding factor to the Bank's growth and growth potential. On February 7, 2017 and April 2, 2019 - respectively - the Cabinet of Ministers duly approved the proposed amendment and the draft language relating to the proposed amendment. The next step is to be placed in the Order Paper of Parliament for discussion and final approval to thereby after-which it will be enacted as legislation

**Template 07 : Credit Risk under Standardised Approach**

**Credit Risk Exposures and Credit Risk Mitigation(CRM) Effects - Bank**

Code	Item	Exposures Before CCF and CRM			Exposures After CCF and CRM			Risk weighted Assets	RWA Density (%)
		Exposures	Exposures	Total	Exposures	Exposures	Total		
		On	Off		On	Off			
		Balance Sheet	Balance Sheet		Balance Sheet	Balance Sheet			
20.3.1.0.0.0	Total Risk-weighted amount for Credit Risk	1,679,190,747	393,714,019	2,072,904,767	1,238,084,373	77,566,263	1,315,650,637	595,370,603	45%
20.3.1.1.0.0	Claims on Central Government and Central Bank of Sri Lanka	751,995,445	13,035,477	765,030,922	347,561,916	-	347,561,916	17,168,164	5%
20.3.1.2.0.0	Claims on Foreign sovereigns and their Central Banks	-	-	-	-	-	-	-	-
20.3.1.3.0.0	Claims on Public Sector Entities (PSEs)	76,929,669	171,671,322	248,600,991	76,929,669	23,379,626	100,309,295	42,988,197	43%
20.3.1.4.0.0	Claims on BIS,IMF and Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-
20.3.1.5.0.0	Claims on Banks Exposures	6,542,453	-	6,542,453	6,542,453	-	6,542,453	1,665,193	25%
20.3.1.6.0.0	Claims on Financial Institutions	20,350,843	-	20,350,843	20,350,843	-	20,350,843	7,170,309	35%
20.3.1.7.0.0	Claims on Corporates	113,629,811	183,678,624	297,308,434	113,480,413	49,120,918	162,601,331	148,099,702	91%
20.3.1.8.0.0	Retail claims	366,704,896	25,328,597	392,033,493	344,027,569	5,065,719	349,093,288	275,611,320	79%
20.3.1.8.3.0	Claims Secured by Gold	149,826,584	-	149,826,584	149,826,584	-	149,826,584	1,030	0%
20.3.1.9.0.0	Claims Secured by Residential Property	65,491,678	-	65,491,678	65,491,678	-	65,491,678	32,745,839	50%
20.3.1.10.0.0	Claims Secured by Commercial real Estate	-	-	-	-	-	-	-	-
20.3.1.11.0.0	Non Performing Assets (NPAs)	15,502,259	-	15,502,259	15,502,259	-	15,502,259	21,262,648	137%
20.3.1.13.0.0	Higher-risk Categories	750,573	-	750,573	750,377	-	750,573	1,876,434	250%
20.3.1.14.0.0	Cash Items, other assets	50,952,722	-	50,952,722	50,952,722	-	50,952,722	113,880	0%
20.3.1.14.2.0	Other Assets	60,513,813	-	60,513,813	46,667,889	-	46,667,889	46,667,889	100%

**Template 07 : Credit Risk under Standardised Approach**

**Credit Risk Exposures and Credit Risk Mitigation(CRM) Effects - Group**

Code	Item	Exposures Before CCF and CRM			Exposures After CCF and CRM			Risk weighted Assets	RWA Density (%)
		Exposures	Exposures	Total	Exposures	Exposures	Total		
		On	Off		On	Off			
		Balance Sheet	Balance Sheet		Balance Sheet	Balance Sheet			
20.3.1.0.0.0	Total Risk-weighted amount for Credit Risk	1,852,627,187	400,527,453	2,253,154,640	1,411,136,774	79,526,089	1,490,662,863	765,873,723	51%
20.3.1.1.0.0	Claims on Central Government and Central Bank of Sri Lanka	760,450,456	22,372,817	782,823,273	355,632,691	-	355,632,691	17,168,164	5%
20.3.1.2.0.0	Claims on Foreign sovereigns and their Central Banks	-	-	-	-	-	-	-	-
20.3.1.3.0.0	Claims on Public Sector Entities (PSEs)	76,929,669	162,333,982	239,263,651	76,929,669	23,379,626	100,309,295	42,988,197	43%
20.3.1.4.0.0	Claims on BIS,IMF and Multilateral Development Banks(MDBs)	-	-	-	-	-	-	-	-
20.3.1.5.0.0	Claims on Banks Exposures	11,458,612	-	11,458,612	11,458,612	-	11,458,612	3,775,409	33%
20.3.1.6.0.0	Claims on Financial Institutions	9,559,550	-	9,559,550	9,559,550	-	9,559,550	5,012,050	52%
20.3.1.7.0.0	Claims on Corporates	113,629,811	190,492,058	304,121,868	113,480,413	51,080,744	164,561,157	150,059,528	91%
20.3.1.8.0.0	Retail claims	527,046,573	25,328,597	552,375,169	504,369,246	5,065,719	509,434,965	435,952,997	86%
20.3.1.8.3.0	Claims Secured by Gold	149,826,584	-	149,826,584	149,826,584	-	149,826,584	1,030	-
20.3.1.9.0.0	Claims Secured by Residential Property	66,201,363	-	66,201,363	66,201,363	-	66,201,363	33,100,682	50%
20.3.1.10.0.0	Claims Secured by Commercial real Estate	-	-	-	-	-	-	-	-
20.3.1.11.0.0	Non Performing Assets (NPAs)	15,502,259	-	15,502,259	15,502,259	-	15,502,259	21,262,648	137%
20.3.1.13.0.0	Higher-risk Categories	-	-	-	-	-	-	-	-
20.3.1.14.0.0	Cash Items, other assets	51,737,246	-	51,737,246	51,737,246	-	51,737,246	113,880	-
20.3.1.14.2.0	Other Assets	70,285,064	-	70,285,064	56,439,140	-	56,439,140	56,439,140	100%

## BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

### BASEL III DISCLOSURE REQUIREMENT

#### Template 08 : Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights - Bank

Description Risk Weight	Amount (LKR'000) as at 31.12.2017 (Post CCF & CRM)							Total Credit Exposures Amount
	0%	20%	50%	75%	100%	150%	>150%	
Claims on Central Government and Central Bank of Sri Lanka	261,721,097	85,840,819	-	-	-	-	-	347,561,916
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	71,651,373	-	-	28,657,922	-	-	100,309,295
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	6,035,548	97,645	-	409,261	-	-	6,542,453
Claims on Financial Institutions	-	10,791,293	9,095,000	-	-	464,550	-	20,350,843
Claims on Corporates	-	13,795,857	7,430,980	-	140,873,401	501,093	-	162,601,331
Retail Claims	149,821,433	5,150	-	293,927,872	55,165,416	-	-	498,919,872
Claims Secured by Residential Property	-	-	65,491,678	-	-	-	-	65,491,678
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-
Non- Performing Assets (NPAs)	-	-	70,854	-	3,839,774	11,591,631	-	15,502,259
Higher-risk Categories	-	-	-	-	-	-	750,573	750,573
Cash Items and Other Assets	50,383,325	569,398	-	-	46,667,889	-	-	97,620,611
<b>Total</b>	<b>461,925,855</b>	<b>188,689,439</b>	<b>82,186,157</b>	<b>293,927,872</b>	<b>276,078,212</b>	<b>12,092,724</b>	<b>750,573</b>	<b>1,315,650,834</b>

#### Template 08 : Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights - Group

Description Risk Weight	Amount (LKR'000) as at 31.12.2017 (Post CCF & CRM)							Total Credit Exposures Amount
	0%	20%	50%	75%	100%	150%	>150%	
Claims on Central Government and Central Bank of Sri Lanka	269,791,872	85,840,819	-	-	-	-	-	355,632,691
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	71,651,373	-	-	28,657,922	-	-	100,309,295
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	9,542,937	97,708	-	1,817,968	-	-	11,458,612
Claims on Financial Institutions	-	-	9,095,000	-	-	464,550	-	9,559,550
Claims on Corporates	-	13,795,857	7,430,980	-	142,833,227	501,093	-	164,561,157
Retail Claims	149,821,433	5,150	-	293,927,872	215,507,092	-	-	659,261,548
Claims Secured by Residential Property	-	-	66,201,363	-	-	-	-	66,201,363
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-
Non- Performing Assets (NPAs)	-	-	70,854	-	3,839,774	11,591,631	-	15,502,259
Higher-risk Categories	-	-	-	-	-	-	-	-
Cash Items and Other Assets	51,167,849	569,398	-	-	56,439,140	-	-	108,176,386
<b>Total</b>	<b>470,781,154</b>	<b>181,405,534</b>	<b>82,895,905</b>	<b>293,927,872</b>	<b>449,559,673</b>	<b>12,092,724</b>	<b>-</b>	<b>1,490,662,863</b>



Template 9 : Market Risk under Standardised Measurement Method

	BANK		GROUP	
	As at 31st December 2018	As at 31st December 2017	As at 31st December 2018	As at 31st December 2017
<b>(a) R W A for Interest Rate Risk</b>	<b>534,185</b>	248,106	<b>534,185</b>	248,106
General Interest Rate Risk	<b>371,277</b>	248,106	<b>371,277</b>	248,106
(i) Net Long or short Position	<b>371,277</b>	248,106	<b>371,277</b>	248,106
(ii) Horizontal Disallowance	-	-	-	-
(iii) Vertical Disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific Interest Rate Risk	<b>162,908</b>	-	<b>162,908</b>	-
<b>(b) R W A for Equity</b>	<b>275,707</b>	238,341	<b>337,137</b>	350,662
(i) General Equity Risk	<b>138,805</b>	121,975	<b>170,710</b>	183,072
(ii) Specific Equity Risk	<b>136,902</b>	116,366	<b>166,427</b>	167,590
<b>© RWA for foreign exchange &amp; gold</b>	<b>162,551</b>	130,673	<b>162,551</b>	130,673
<b>(d) Capital charge for Market Risk (a)+(b)+©</b>	<b>972,443</b>	617,120	<b>1,033,873</b>	729,441
<b>RWA for Market risk (d) *100/12.875 (2018) , *100 /11.75 (2017)</b>	<b>7,552,947</b>	5,252,085	<b>8,030,076</b>	6,208,009

Template 10 : Operational Risk under Basic Indicator Approach

	Bank				Group				
	Gross Income				Gross Income				
	1st Year	2nd Year	3rd Year	Average	1st Year	2nd Year	3rd Year	Average	
<b>The Basic Indicator Approach</b>	54,638,097	61,963,686	74,722,956	63,774,913	68,007,563	77,625,737	94,659,125	80,097,475	
<b>Capital Charges for Operational Risk (LKR'000)</b>									
The Basic Indicator Approach	15%	8,195,715	9,294,553	11,208,443	9,566,237	10,201,134	11,643,861	14,198,869	12,014,621
<b>Risk Weighted Amount for Operational Risk (LKR'000)</b>									
The Basic Indicator Approach	7.8	63,656,035	72,190,702	87,055,871	74,300,869	79,232,112	90,437,752	110,282,476	93,317,447

## BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

### BASEL III DISCLOSURE REQUIREMENT

Template 11 : Differences Between Accounting and Regulatory Scopes and mapping of Financial Statement Categories with Regulatory Risk Categories - Bank Only

	Carrying value as reported in published Financial statements	Carrying value under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Subject to deduction from capital
<b>Assets</b>	1,734,702,989	1,731,539,934	1,675,887,151	54,778,368	874,415
Cash and Cash Equivalents	57,879,933	57,884,491	57,884,491	-	-
Balances with Central Bank of Sri Lanka	51,615,796	51,615,796	51,615,796	-	-
Placements with Banks	4,350,726	4,351,299	4,351,299	-	-
Derivative Financial Instruments	1,163,384	1,163,384	1,163,384	-	-
Financial Assets - At Fair Value through Profit or Loss	54,052,435	54,052,435	-	54,052,435	-
Financial Assets - At Amortised Cost					
Loans and Receivables to Banks	32,167,421	32,217,137	32,217,137	-	-
Loans and Receivables to Other Customers	1,265,667,467	1,274,300,318	1,274,300,318	-	-
Debt instruments measured at amortised cost	201,650,435	201,650,435	201,650,435	-	-
Financial Assets - At Fair Value through Other Comprehensive Income [ OCI ]					
Equity instruments at fair value through OCI	1,179,922	888,233	-	725,933	162,300
Debt instruments at fair value through OCI	4,731,261	4,731,261	4,731,261	-	-
Investments in Subsidiaries	1,027,542	1,027,542	754,944	-	272,598
Goodwill and Intangible Assets	439,517	439,517	-	-	439,517
Property, Plant and Equipment	26,259,745	26,259,745	26,259,745	-	-
Investment Properties	1,264,752	1,264,752	1,264,752	-	-
Prepaid Leases	461,043	461,043	461,043	-	-
Other Assets	30,791,610	19,232,546	19,232,546	-	-
<b>Liabilities</b>	1,643,493,064	1,638,449,782	-	-	-
Due to Banks	138,031,420	138,031,420	-	-	-
Derivative Financial Instruments	2,512,205	2,512,205	-	-	-
Due to Other Customers	1,422,961,240	1,423,244,820	-	-	-
Other Borrowings	35,575,554	35,575,554	-	-	-
Current Tax Liabilities	4,004,218	4,004,218	-	-	-
Net Deferred Tax Liabilities	3,954,834	3,647,244	-	-	-
Other Liabilities	23,919,689	18,900,417	-	-	-
Subordinated Term Debts	12,533,904	12,533,904	-	-	-
<b>Shareholders' Equity</b>	91,209,925	93,090,152	-	-	-
Stated Capital/Assigned Capital	12,201,998	12,201,998	-	-	-
Statutory Reserve Fund	6,669,490	5,814,744	-	-	-
Other Reserves	26,008,948	24,836,036	-	-	-
Retained Earnings	46,329,489	50,237,374	-	-	-
<b>Total Equity and Liabilities</b>	1,734,702,989	1,731,539,934	-	-	-
<b>Off-Balance Sheet Liabilities</b>	402,761,963		403,433,251	-	-
Acceptance	90,195,344		90,195,344	-	-
Guarantees	84,103,230		84,103,230	-	-
Letter of Credit	73,255,113		73,255,113	-	-
Other Contingent Items	99,087,601		99,087,601	-	-
Undrawn Loan Commitments	56,791,963		56,791,963	-	-
(-) Allowance for ECL/impairment losses	(671,288)		-	-	-

Template 12 : Explanation of Differences Between Accounting and regulatory Exposure Amounts

	Reasons for Differences									
	Carrying value as reported in published Financial statements	Carrying value under scope of regulatory reporting	Difference observed between accounting carrying value and amounts considered for regulatory purposes	Net Impact Arising from individual and collective impairment	Fair value Adjustments	Effective Interest Rate (EIR) Adjustment	Unamortized cost on staff loans (day 01 difference)	Other SLFRS adjustments	Tax impact on SLFRS adjustments	
<b>Assets</b>	1,734,702,989	1,731,539,934	3,163,055							
Cash and Cash Equivalents	57,879,933	57,884,491	(4,558)	(4,558)						
Balances with Central Bank of Sri Lanka	51,615,796	51,615,796	-	-						
Placements with Banks	4,350,726	4,351,299	(573)	(573)						
Derivative Financial Instruments	1,163,384	1,163,384	-	-						
Financial Assets - At Fair Value through Profit or Loss	54,052,435	54,052,435	-	-						
Financial Assets - At Amortised Cost										
Loans and Receivables to Banks	32,167,421	32,217,137	(49,716)	(49,716)						
Loans and Receivables to Other Customers	1,265,667,467	1,274,300,318	(8,632,851)	973,151	-	-	(9,606,001)	-	-	
Debt instruments measured at amortised cost	201,650,435	201,650,435	-	-	-	-	-	-	-	
Financial Assets - At Fair Value through Other Comprehensive Income [ OCI ]										
Equity instruments at fair value through OCI	1,179,922	888,233	291,689	-	291,689	-	-	-	-	
Debt instruments at fair value through OCI	4,731,261	4,731,261	-	-	-	-	-	-	-	
Investments in Subsidiaries	1,027,542	1,027,542	-	-	-	-	-	-	-	
Goodwill and Intangible Assets	439,517	439,517	-	-	-	-	-	-	-	
Property, Plant and Equipment	26,259,745	26,259,745	-	-	-	-	-	-	-	
Investment Properties	1,264,752	1,264,752	-	-	-	-	-	-	-	
Prepaid Leases	461,043	461,043	-	-	-	-	-	-	-	
Other Assets	30,791,610	19,232,546	11,559,064	-	-	-	9,606,001	1,953,063	-	
<b>Liabilities</b>	1,643,493,064	1,638,449,782	5,043,282			(283,580)		5,019,272	307,590	
Due to Banks	138,031,420	138,031,420	-	-	-	-	-	-	-	
Derivative Financial Instruments	2,512,205	2,512,205	-	-	-	-	-	-	-	
Due to Other Customers	1,422,961,240	1,423,244,820	(283,580)	-	-	(283,580)	-	-	-	
Other Borrowings	35,575,554	35,575,554	-	-	-	-	-	-	-	
Current Tax Liabilities	4,004,218	4,004,218	-	-	-	-	-	-	-	
Net Deferred Tax Liabilities	3,954,834	3,647,244	307,590	-	-	-	-	307,590	-	
Other Liabilities	23,919,689	18,900,417	5,019,272	-	-	-	-	5,019,272	-	
Subordinated Term Debts	12,533,904	12,533,904	-	-	-	-	-	-	-	
<b>Shareholders' Equity</b>	91,209,925	93,090,152	(1,880,227)	-	299,048	-	-	(2,179,275)	-	
Stated Capital/Assigned Capital	12,201,998	12,201,998	-	-	-	-	-	-	-	
Statutory Reserve Fund	6,669,490	6,669,490	-	-	-	-	-	-	-	
Other Reserves	26,008,948	25,709,900	299,048	-	299,048	-	-	-	-	
Retained Earnings	46,329,489	48,508,764	(2,179,275)	-	-	-	-	(2,179,275)	-	
<b>Total Shareholders' Equity</b>	1,734,702,989	1,731,539,934	3,163,055							

## EXTERNAL ASSURANCE ON SUSTAINABILITY REPORT



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### Independent Assurance Report to People's Bank on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2018

#### INTRODUCTION AND SCOPE OF THE ENGAGEMENT

The management of People's Bank ("the Bank") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2018 ("the Report").

- ◆ Reasonable assurance on the information on financial performance as specified on page 131 of the Report.
- ◆ Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: 'In accordance' – Core guidelines.

#### BASIS OF OUR WORK AND LEVEL OF ASSURANCE

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("ICASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards 'In accordance' - Core guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

#### MANAGEMENT OF THE BANK'S RESPONSIBILITY FOR THE REPORT

The management of the Bank is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustainability reporting process in line with the GRI Sustainability Reporting Guidelines.

#### ERNST & YOUNG'S RESPONSIBILITY

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 12 April 2019. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Bank or for any purpose other than that for which it was prepared. In

conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the ICASL.

#### KEY ASSURANCE PROCEDURES

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- ◆ Interviewing relevant the Bank's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- ◆ Reviewing and validation of the information contained in the Report.
- ◆ Checking the calculations performed by the Bank on a sample basis through recalculation.
- ◆ Reconciling and agreeing the data on financial performance are properly derived from the Bank's audited financial statements for the year ended 31 December 2018.
- ◆ Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' – Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

#### LIMITATIONS AND CONSIDERATIONS

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

#### CONCLUSION

Based on the procedures performed, as described above, we conclude that;

- ◆ The information on financial performance as specified on page 131 of the Report are properly derived from the audited financial statements of the Bank for the year ended 31 December 2018.
- ◆ Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.

**Ernst & Young**  
Chartered Accountants

28th March 2019  
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA  
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Principal T P M Ruberu FCCA FCCA

A member firm of Ernst & Young Global Limited

## GLOBAL REPORTING INITIATIVES (GRI) CONTENT INDEX – 'IN ACCORDANCE CORE'

GRI Standard Disclosures		Page number(s)	Remarks
<b>1. ORGANIZATIONAL PROFILE</b>			
102-1	Name of the organization	292	
102-2	Activities, brands, products and services	125	
102-3	Location of headquarters	292	
102-4	Location of operations	110	
102-5	Ownership and legal form	155	
102-6	Markets served	110	
102-7	Scale of the organization	10 and 11	
102-8	Information on other employees and other workers	117	
102-9	Supply chain	128	
102-10	Significant changes to the organization and its supply chain		There are no significant changes to the organization and supply change during the period.
102-11	Precautionary principle or approach	3	
102-12	External initiatives	3	
102-13	Membership of associations	129	
<b>2. STRATEGY</b>			
102-14	Statement from senior decision-maker	19 to 21	
102-15	Key impacts risks, and opportunities	40 to 48	
<b>3. ETHICS AND INTEGRITY</b>			
102-16	Values, principles, standards and norms of behavior	123	
102-17	Mechanisms for advice and concerns about ethics	123	
<b>4. GOVERNANCE</b>			
102-18	Governance structure	50 and 55	
102-19	Delegating authority	55	
102-22	Composition of the highest governance body and its Committee	24 to 27, 50 and 51	
102-23	Chair of the highest governance body	16 to 18, 26, 51 and 53	
102-24	Nominating and selecting the highest governance body	51 and 54	
102-25	Conflicts of interest	68	
102-26	Role of highest governance body in setting purpose, values and strategy	123	
102-30	Effectiveness of risk management processes	40 to 48	
102-31	Review of economic, environmental, and social topics		Each and every meeting pertaining to board of Directors and Board Sub Committees are concerned over the economic, social and environmental impacts to the business decisions taken in such respective committees.
102-32	Highest governance body's role in sustainability reporting	55	
102-33	Communicating critical concerns	51	
102-34	Nature and total number of critical concerns	70	
102-35	Remuneration policies	65	
102-36	Process for determining remuneration	65	

## GLOBAL REPORTING INITIATIVES (GRI) CONTENT INDEX – 'IN ACCORDANCE CORE'

GRI Standard Disclosures		Page number(s)	Remarks
<b>5. STAKEHOLDER ENGAGEMENT</b>			
102-40	List of stakeholder groups	82 and 83	
102-41	Collective bargaining agreements	122	
102-42	Identifying and selecting stakeholders	82 and 83	
102-43	Approach to stakeholder engagement	82 and 83	
102-44	Key topics and concerns raised	82 and 83	
<b>6. REPORTING PRACTICE</b>			
102-45	Entities included in the consolidated financial statements	3	
102-46	Defining report content and topic boundaries	3 and 85 to 87	
102-47	List of material topics	85 to 87	
102-48	Restatements of information	3	
102-49	Changes in reporting	3	
102-50	Reporting period	3	
102-51	Date of most recent report	3	
102-52	Reporting cycle	3	
102-53	Contract point for questions regarding the report	4	
102-54	Claims of reporting in accordance with the GRI Standards	3	
102-55	GRI content index	283 to 286	
102-56	External assurance	4 and 282	

### GRI 103 : MANAGEMENT APPROACH

103-1	Explain the material topics & its boundary	85 to 87	
103-2	The Management Approach and its components	85 to 87	
103-3	Evaluation of the Management Approach	85 to 87	

GRI Specific Disclosures		Page number(s)	Remarks
<b>ECONOMIC TOPICS</b>			
<b>GRI 201: Economic Performance</b>			
201-1	Direct Economic Value generated and distributed	131	
201-2	Financial implications and other risks and opportunities due to climate change		Climate change does not have a significant impact on our business. No records were maintained to catalogue the effect of climate change on our business.
201-3	Defined benefit plan obligations and other retirement plans	166	
<b>GRI 202: Market Presence</b>			
202-1	Ratios of standard entry level wage by gender compared to local minimum wage		There is no entry level wage rate imposed on Banking sector. However Bank's entry level wage is higher than the national minimum wage rate.
202-2	Proportion of senior management hired from the local community	119	

GRI Specific Disclosures		Page number(s)	Remarks
<b>GRI 203: Indirect Economic Impacts</b>			
203-1	Infrastructure investments and services supported	133	
203-2	Significant indirect economic impacts	132	
<b>GRI 204: Procurement Practices</b>			
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<b>SOCIAL TOPICS</b>			
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413-1	Operations with local community engagement, impact assessments and development programmes	132	
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<b>GRI 416: Customer Health and Safety</b>			
416-1	Assessment of the health and safety impacts of product and service categories	127	
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## GLOSSARY OF FINANCIAL/BANKING TERMS

## A

**Accounting Policies**

Principles, rules and procedures selected and consistently followed by the management of an entity in = preparing and reporting the Financial Statements.

**Accrual Basis**

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

**Amortisation**

Systematic allocation of the depreciable amount of an intangible asset over its useful life. Depreciation and amortisation both have the same meaning.

**Actuarial Valuation**

Fund value determined by computing its normal cost, actuarial accrued liability, actuarial value of its assets and other relevant costs and values.

**Amortised Cost**

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

**Associate Company**

A company other than a subsidiary in which a holding company has a participating interest and exercise a significant influence over its operating and financial policies.

**Available-for-Sale Financial Asset**

Those financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit and loss.

## B

**Bill Discounted**

A promissory Note or Bill of Exchange that has been purchased for less than face value, the difference representing interest on the unexpired term of the bill. At maturity, the holder collects the face value of the bill for its own account.

**Bill of Exchange**

A signed, written, unconditional order addressed by one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of a third person (the payee). The terms bill of exchange and draft are often used interchangeably.

## C

**Call Deposits or Call Money**

Deposits or funds lent out which are repayable on demand.

**Capital Adequacy**

The ability of a Bank to meet the needs of their depositors and other creditors in terms of available funds. As per requirement of Bank for International Settlements (SIBS) and Central Bank of Sri Lanka, local banks should maintain a stipulated minimum capital.

**Capital Adequacy Ratio**

The percentage of the risk-adjusted assets supported by capital, as defined under the framework of risk based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

**Credit Risk**

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**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.

**Certificate of Deposit (CD)**

A certificate issued by a Bank against funds deposited with it that specifies the rate of interest payable and the date when the deposit will be repaid to the bearer. CDs are often negotiable.

**Commercial Paper**

Unsecured short-term Promissory Notes issued by banks and credit worthy corporate borrowed.

**Commitments**

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

**Contingencies**

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

**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 Banks**

A Bank that acts as an agent for another Bank. The correspondent Bank will generally provide a wide variety of banking services on behalf of the other banks in the region in which the correspondent Bank is located.

## GLOSSARY OF FINANCIAL/BANKING TERMS

**Cost Income Ratio**

Operating expenses as a percentage of net income.

**Counterparty**

The other party (including a Bank) with whom a deal is made or closed.

**Country Risk**

The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

**Cross Rate**

The calculated foreign exchange rate from two separate quotations involving the same currency.

**Currency Swap**

A current exchange of principal amounts in two currencies combined with an agreement to re-exchange the currencies at a later date and to make interest payments, until the re-exchange, on the currency is received.

**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 allocations of the depreciable amount of the assets over its useful life.

**Derivative**

A financial instrument with all three of the following characteristics: (a) Its value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable (sometimes called the 'underlying'). (b) It requires no initial net investment that is smaller than would be required for other types. (c) It is settled at a future date.

**Dealing Securities**

Securities acquired and held with the intention of reselling them in the short-term.

**Defined Benefit Plan**

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and/or years of service.

**Disintermediation**

The term often used to describe borrowers raising funds directly from the capital markets rather than from the banking sector. This is usually only undertaken by borrowers with the strongest credit ratings.

**Documentary Bill**

A Bill of Exchange that is accompanied by various documents, such as a Bill of Lading, an invoice and an insurance policy.

**Documentary Credit**

A letter of credit that stipulates the documents that must be produced in order for payment to be made.

**Draft**

A term generally synonymous with Bill of Exchange but sometimes used specifically in the context of inter-Bank bills. A banker's draft, payable on demand, drawn by or on behalf of a Bank.

**E****Effective Interest Method**

The method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

**Equity Instrument**

Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

**F****Fair Value**

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Fixed Charge**

A charge on specific property, usually freehold or leasehold property or plant and machinery, given under a legal mortgage.

**Financial Instrument**

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Floating Charge**

A charge, taken by a lender to secure an advance upon property, such as stock, debtors, or cash, that permits the Company to continue using and disposing of those assets in connection with its ordinary business. Such a charge becomes fixed in the event of the Company's default.

**Foreclosed Properties**

Properties acquired in full or partial settlement of debts, which will be held with the intention of resale at the earliest opportunity.

**Foreign Exchange Income**

The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the Balance Sheet date at prevailing rates which differ from those rates in force at inception or on the previous Balance Sheet date. Foreign exchange income also arises from trading in foreign currencies.

**Forward Contract**

A contract that commits two parties to an exchange at a specific future date under terms set out at the contract date.

**Forward Rate**

The price of currency with a maturity beyond the spot date. Forward rates may be either the same in price as spot rates or different. In the first case, the forward rate is flat. In the second case, the price is either higher, at a premium, or lower, at a discount.

**Forward Rate Agreement (FRA)**

An agreement to exchange payments at a specified future date based on the difference between a particular interest rate index (e.g. LIBOR) and an agreed fixed rate.

**G****Group**

A group is a parent and all its subsidiaries.

**Guarantees**

Primarily represent irrevocable assurances that a Bank will make payments in the event that its customer is unable to perform its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

**H****Hedging**

A methodology used to cover against risk of unfavorable price movements (interest rates, prices, commodities, etc).

**Held-to-Maturity Investments**

A financial asset with fixed or determinable payments and fixed maturity that an entity has the positive intent and ability to hold to maturity, other than those that the entity on initial recognition elects to designate as held-for-trading or available-for-sale, or that meet the definition of loans and receivables.

**I****Impairment**

This arises due to decline in recoverable amount below carrying amount.

**Indemnity**

An agreement whereby a person agrees to bear any loss that is suffered by a party to a contract to which he himself is not a party. The person giving the indemnity assumes primarily liability, unlike a guarantor who assumes secondary liability.

**Interest Rate Risk**

The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**Interest in Suspense**

The interest due on non-performing assets.

**Interest Margin**

Net interest income as a percentage of average interest-earning assets.

**K****Key Management Personnel**

Those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity.

**Key Performance Indicators (KPIs)**

KPIs are quantifiable measurements, agreed beforehand that reflects the critical success factors of a company.

**L****Letter of Credit (LC)**

A document issued by a Bank, requesting another Bank or banks to advance money to a third person, up to a certain amount, in accordance with the terms and conditions set out in the document.

**Liquidity Risk**

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

**Liquid Assets Ratio**

Liquid assets expressed as a percentage of total liabilities other than shareholders' funds.

**M****Mark to Market**

The policy to periodically revaluing positions up or down to their current market or fair value.

**Market Risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks: currency risk, interest rate risk and other price risk.

**Minority Interest**

The proportion of the profit or loss and net assets of a subsidiary attributable to equity interest that are not owned, directly or indirectly through subsidiaries, by the Parent.

**Mortgage**

A lien on real property used to secure a borrowing.

## GLOSSARY OF FINANCIAL/BANKING TERMS

## N

**Negotiable Instrument**

A security or other financial instrument which can be freely sold to a third party (i.e. negotiated). Bank notes, bearer bonds, Bills of Exchange and cheques are normally negotiable instruments.

**Net Interest Margin**

Interest income as a percentage of Average Interest Earning Assets.

**Non-performing Loan**

A loan where principal or interest payments are not being made on the due dates or where the borrower is failing to meet some other term or condition of the loan. Non-performing loans are frequently allocated non-accrual status.

**Nostro Account**

A foreign currency current account maintained with another Bank, usually but not necessarily a foreign correspondent Bank. At the other Bank, the deposit is called a nostro account.

## O

**Objective Evidence**

Information based on facts that can be proved through analysis, measurement, observation and other such means of research.

**Off-Balance Sheet Transactions**

Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

## A

**Position**

The netted total commitments in a given currency or interest rate. A position can be either flat or square (no exposure), long (more currency bought than sold overbought) or short (more currency sold than bought oversold).

**Prime Rate**

The interest rate which a Bank charges its most credit worthy corporate customers.

**Promissory Note**

An unconditional promise in writing made by one person to another, signed by the promisor, engaging to pay on demand or at a fixed or determinable future time a fixed sum to or to the order of, a specified person or to bearer.

## R

**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.

**Repo**

Jargon for sale and repurchase agreement.

**Reserve Assets**

Assets of a financial institution which form part of its reserve requirements with the Central Bank.

**Reverse Repo**

The opposite of a repo, i.e. a purchase and resale agreement.

**Revolving Credit**

A line credit that has terms permitting successive drawings and payments at the borrower's discretion. The funds available to the borrower are replenished by any repayments of principal.

**Risk-Weighted Assets**

On Balance Sheet assets and the credit equivalent of Off-Balance Sheet assets multiplied by the relevant risk weighting factors.

## S

**Securitisation**

This involves the transfer of a block of income producing assets to a vehicle company that finances the purchase through the issue of debt (usually notes of commercial paper).

**Segmental Analysis**

Analysis of financial information by segments of an enterprise specifically, the different geographical areas in which it operates. Segment Reporting Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

**Settlement Date**

The date on which a securities transaction is completed by actual exchange of securities for cash.

**Short Position**

An excess of liabilities (and/or forward sale contracts) over assets (and/or forward purchase contracts). A dealer's position when the net of purchases and sales leaves a net sold or oversold position.

**Subsidiary Company**

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

**Suspense Account**

An account used to record items temporarily which are held subject to clarification and transfer to the appropriate account.

**Syndication Loan**

A loan arrangement in which a number of banks, in a form of joint venture, provides funds which they would individually be unwilling or unable to provide. Syndications are used for customers whose scale of financing is too great for any single Bank to accommodate without distorting its loan portfolio.

T

**Time Deposit**

An interest bearing deposit account which is subject to withdrawal only after a fixed term. Tier I Capital (Common Equity Tier I – CET I) Common Equity Tier I (CET I) is a component of

**Tier I Capital that consists mostly of stated capital.**

It is a capital measure that was introduced as precautionary measure to protect the economy from a financial crisis.

**Tier I Capital (Additional Tier I Capital – AT I) Additional Tier I Capital**

(AT I) is a component of Tier I Capital that comprises securities that are subordinated to most subordinated debt, which have no maturity, and their dividends can be cancelled at any time.

**Tier II Capital**

Capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

**Total Capital**

Is the sum of Tier I capital and Tier II capital.

**Trading Financial Assets and Liabilities**

A financial asset or financial liability is classified as held-for-trading if it is: (a) Acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (b) Part of a portfolio of identified financial instruments that are managed together for which there is evidence of a recent actual pattern of short-term profit-taking; or (c)

A derivative (except for a derivative that is designated and effective hedging instrument).

**Transaction Costs**

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

**Treasury Bonds (T-Bond)**

A long-dated security issued by the Central Bank of Sri Lanka. T-Bonds carry a coupon rate of interest.

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.

**Value at Risk (VAR)**

A risk management methodology that estimates the potential loss arising from adverse movement in market interest or exchange rates over a defined holding period.

**Vostro Account**

A local currency current account maintained with a Bank by another Bank (compare with Nostro account).

Y

**Yield Curve**

A graph showing market interest rates as a function of maturity. Normally, the yield curve is upward sloping: interest rates increase with the term of the instrument.

## CORPORATE INFORMATION

102-1,102-3

### Name of the Bank

People's Bank

### Legal Status

A licensed commercial bank under the Banking Act No. 30 of 1988 incorporated as a commercial bank by People's Bank Act No. 29 of 1961.

### Head Office (Registered Office)

No. 75, Sir Chittampalam  
A. Gardiner Mawatha,  
Colombo 02, Sri Lanka.  
Tel. : +9411 232 7841 (6 Lines),  
+9411 244 6316 (4 Lines),  
+9411 248 1481  
Email : info@peoplesbank.lk  
Web : www.peoplesbank.lk  
Swift : PSBKLKX / PSBKLKX 023  
VAT Registration No. 409000037-7000

### Auditors

Auditor General  
Auditor General's Department,  
No. 306/72, Polduwa Road,  
Battaramulla, Sri Lanka.

### Ernst & Young

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

### Board Secretary

Mr. Rohan Pathirage, LLB,  
MMgt. in Banking, Attorney-at-Law

### Corporate Banking Division

People's Bank, 11th Floor,  
Head Office Building,  
No. 75, Sir Chittampalam  
A. Gardiner Mawatha,  
Colombo 02, Sri Lanka.  
Tel : +9411 232 7841-6, + 9411 244 6316-9,  
+9411 248 1481  
Fax : +9411 232 9575, +9411 244 6410  
Email : cbdunit1@peoplesbank.lk,  
smcc3@peoplesbank.lk

### Offshore Banking Unit

People's Bank, 11th Floor,  
Head Office Building,  
No. 75, Sir Chittampalam  
A. Gardiner Mawatha,  
Colombo 02, Sri Lanka.  
Tel : +9411 220 6745-7, +9411 220 6725  
Fax : +9411 247 0303  
Email : fcbu@peoplesbank.lk  
SWIFT : PSBKLKX

### International Banking Division

ACHC Building,  
No. 91, Sir Chittampalam  
A. Gardiner Mawatha,  
Colombo 02, Sri Lanka.  
Tel : +9411 243 7239-41, + 9411 232  
0651-6  
Fax : +9411 244 8067  
E-mail : cbdadmin@peoplesbank.lk  
SWIFT : PSBKLKX

### Overseas Customer Services

No. 59, D.R. Wijewardena Mawatha,  
Colombo 10, Sri Lanka.  
Tel. : +9411 233 2746, +9411 233 4278,  
+9411 244 6409  
Email : fastcash@peoplesbank.lk  
nrfc@peoplesbank.lk,  
teletran@peoplesbank.lk  
SWIFT : PSBKLKX

### People's Card Centre

2nd Floor, No. 1161,  
Maradana Road, PLC Building,  
Colombo 08, Sri Lanka.  
Tel : +9411 249 0490  
Fax : +9411 216 9023  
Email : card@peoplesbank.lk

### Subsidiaries of People's Bank

People's Travels (Pvt) Ltd.  
No. 59, D.R. Wijewardena Mawatha,  
Colombo 10, Sri Lanka.  
Tel. : +9411 247 0190, +9411 247 8385,  
+9411 239 6296  
Fax : +9411 243 4530  
Email : ptravel@peoplesbank.lk  
Web : www.peoplestravels.com

### People's Leasing and Finance PLC

No. 1161, Maradana Road, Borella,  
Colombo 08, Sri Lanka.  
Tel : +9411 263 1631  
Fax : +9411 263 1000

### People's Merchant Finance PLC

No. 21, Nawam Mawatha,  
Colombo 02, Sri Lanka.  
Tel. : +9411 230 0191-4  
Fax : +9411 230 0190

### Sub-Subsidiaries of People's Bank (Subsidiaries of People's Leasing and Finance PLC)

#### People's Insurance PLC

No. 53, Dharmapala Mawatha,  
Colombo 03, Sri Lanka.  
Tel : +9411 220 6406  
Fax : +9411 220 6399

#### People's Leasing Property Development Ltd.

No. 1161, Maradana Road, Borella,  
Colombo 08, Sri Lanka.  
Tel : +9411 263 1631  
Fax : +9411 263 1000

#### People's Leasing Fleet Management Ltd.

No. 1161, Maradana Road, Borella,  
Colombo 08, Sri Lanka.  
Tel : +9411 263 1631  
Fax : +9411 263 1000

#### People's Microfinance Ltd.

No. 1161, Maradana Road, Borella,  
Colombo 08, Sri Lanka.  
Tel : +9411 263 1631  
Fax : +9411 263 1000

#### People's Leasing Havelock Properties Ltd.

No. 1161, Maradana Road, Borella,  
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