

**THE
BANK
WE
WILL
BE**

**A 30-year journey has brought us this far. Now,
here is the story of the leap we are making...beginning in 2017...
to usher in the Seylan Bank of the Future**

THE BANK WE WILL BE

An ambitious and inspirational strategic plan is fashioning the Seylan Bank of the future...right now. Spanning the period 2017 to 2020, this blueprint sets the Bank on course to achieve a set of significant milestones, which taken as a whole, will “re-imagine” the Bank and position it optimally to be relevant in the coming era. This report is thus a forward looking narrative.

Vision

To be Sri Lanka's leading financial services provider as recognised by all our stakeholders.

Mission

We provide our customers with financial services that meet their needs in terms of value, pricing, delivery and service.

We will do so through a team of Seylan Bankers who are recognised and rewarded for results orientation.

We will ensure that our efforts translate to meeting the expectations of our shareholders, whilst always acting as responsible corporate citizens.



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Seylan Bank PLC is a public limited liability company incorporated in Sri Lanka in 1987, and operates from its Head Office in Colombo and through its island-wide network of banking centres.

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About this Report



Forward looking narrative

The Annual Report 2017 is a concise report on the activities of the Bank and is structured to provide a transparent view of the financial soundness and sustainability of its operations. Further, as suggested by the theme “**The Bank We Will Be**” it gives a glimpse of the growth trajectory we have planned to usher in the Seylan Bank of the Future.

It is envisaged that its contents will convey to the reader an understanding of the Bank’s underlying business model. This model supports the continuing financial viability of the Bank and promotes the creation of value for all its stakeholders.

Profiling the Bank

Seylan Bank PLC is a licensed commercial bank and a public limited liability company incorporated in Sri Lanka and listed on the Colombo Stock Exchange. The Bank commenced operations in 1987 and is currently identified as a premier bank in Sri Lanka.

Information relating to its share ownership structure, identity and percentage of ownership appear on pages 302 and 303 in the “Investor Information” section of this Annual Report.

Presence and scale of operation

The Bank operates through a well-dispersed network of 166 banking centres, 205 ATMs and 98 student savings centres throughout the country. The Bank has a staff strength of 3,199 employees as at the end of December 2017. During the year 185 relationship officers and more than 100 direct sales officers were successfully trained and empowered to expand our reach to the customers. Overseas, we have established a presence through a team of coordinators in Lebanon, Saudi Arabia and United Arab Emirates, where we focus on the remittances business through exchange houses in these countries.

The Group consists of a subsidiary, Seylan Developments PLC, in which the Bank holds an equity stake of 70.51%, as explained in the Notes to the Financial Statements. There were no significant changes in the size structure, ownership or supply chain of the Bank during 2017.

Brands, products, services and operational structure

The Bank’s operational structure comprises as follows:

- Branch Banking
- Corporate and Foreign Currency Banking
- Retail Banking (Pawning, Leasing, Housing, Margin Trading, Personal Loans, Factoring, Cards)
- Treasury Operations
- International and Trade Finance
- The Project Finance Unit
- Support functions (marketing, information technology, branch credit, credit administration, etc.)

A description of the Bank’s products appears on pages 164 to 166 of this Annual Report.

Compliance

Both financial and non-financial information contained in this Report comply with all applicable rules and guidelines stipulated by the Central Bank of Sri Lanka, the Companies Act No. 07 of 2007, Listing Rules of the Colombo Stock Exchange and The Institute of Chartered Accountants of Sri Lanka.

Sustainability Reporting Framework

This is the Bank's fifth Integrated Report and incorporates material information on economic, social and environmental performances of Seylan Bank PLC in respect of the reporting period. In addition, this Report includes details of the Bank's relationship with its key stakeholders in creating sustainable value which are in the relevant sustainability sections. The Bank's Report is based on the Global Reporting Initiative (GRI) G4 and is prepared in accordance with "core" criteria.

Limitations and boundary

This Report mainly addresses sustainability impacts, opportunities and risks arising from the Bank's activities in the financial services sector. Consequently, some of the GRI indicators may not be applicable to its operations.

The content of this Report does not cover the activities of its subsidiary, Seylan Developments PLC which produces its own Annual Report.

Content of the Report

This Report presents performances of the Bank in a manner in which our stakeholders are able to see the holistic view of the Bank's policies, operations and processes. This approach to transparency in reporting helps the Bank identify and address its weaknesses, while building on its strengths, inevitably leading to having a sustainable operation.

Comparative information

This Annual Report contains information relating to Key Performance Indicators and are presented with comparative data relating to the previous year. It also includes a summary of sustainability indices which have been developed by the Bank, to monitor its performance in relation to diverse stakeholder interests.

There are no significant changes/restatements from the previous reporting periods in the scope and aspects boundaries.

Independent Assurance

The Bank's policy identifies the need to obtain an independent assessment and assurance of its sustainability report. Consequently, the Bank engaged Messrs KPMG to provide that appropriate assurance and their Sustainability Assurance Report appears on pages 154 to 155 of this Annual Report.

This Integrated Report may be accessed through the Bank's website at <https://www.seylan.lk/annual-reports.html>

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Our Value Creation Strategy

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Seylan Bank has continued its progress in 2017 towards becoming the Bank of Choice. The Strategic Plan 2017-2020, with its focus on promoting the Bank's activities in the corporate sector, positions it well to achieve continued success with outstanding returns to its investors and stakeholders

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Letter from the Director/
Chief Executive Officer

Financial Highlights

	Bank			Group		
	2017 LKR '000	2016 LKR '000	Change %	2017 LKR '000	2016 LKR '000	Change %
During the year						
Gross Income	49,338,298	37,872,893	30.27	49,873,378	37,912,779	31.55
Operating profit before income tax	6,656,451	5,733,718	16.09	7,284,923	5,771,245	26.23
Income tax expense	2,226,053	1,723,268	29.18	2,281,292	1,736,355	31.38
Profit attributable to equity holders of the Bank	4,430,398	4,010,450	10.47	4,816,834	4,013,132	20.03
Other comprehensive income for the year, net of tax	2,425,819	(345,204)	802.72	2,406,845	(327,867)	834.09
Total comprehensive income attributable to equity holders of the Bank	6,856,217	3,665,246	87.06	7,229,275	3,680,154	96.44
Revenue to Government	4,121,259	3,072,633	34.13	4,166,265	3,079,238	35.30
Gross dividend – Note	1,240,596	1,121,121	10.66	1,240,596	1,121,121	10.66
At the year end						
Total equity attributable to equity holders of the Bank	34,205,923	27,772,282	23.17	35,826,973	29,020,274	23.45
Retained earnings	17,178,024	14,050,233	22.26	17,818,539	14,304,925	24.56
Customer deposits	307,098,902	273,456,344	12.30	307,098,902	273,456,344	12.30
Customer loans and receivables	280,861,907	236,020,197	19.00	280,861,907	236,020,197	19.00
Total Assets	408,125,839	356,012,556	14.64	409,983,755	358,249,441	14.44
Information per ordinary share						
Basic/diluted earnings per share (LKR)	12.58	11.39	10.47	13.68	11.40	20.03
Dividends (LKR) – Note	3.50	3.25	7.69	3.50	3.25	7.69
Net assets value per share (LKR)	96.50	80.51	19.86	101.08	84.13	20.15
Market value (LKR) – as at end of the year						
Voting shares	87.20	90.00	(3.11)	–	–	–
Non-voting shares	56.00	59.00	(5.08)	–	–	–
Statutory/ratios (%)						
Common equity Tier 1 capital ratio (Basel III) (Minimum requirement – 5.75%)	11.16	–	–	11.39	–	–
Core capital adequacy (Basel II) (Minimum requirement – 5%)	–	10.74	–	–	10.94	–
Total Tier 1 capital ratio (Basel III) (Minimum requirement – 7.25%)	11.16	–	–	11.39	–	–
Total capital adequacy (Basel II) (Minimum requirement – 10%)	–	13.18	–	–	13.33	–
Total capital ratio (Basel III) (Minimum requirement – 11.25%)	13.25	–	–	13.46	–	–
Liquidity – Domestic banking unit operations (%) (Minimum requirement – 20%)	23.57	22.68	3.92	–	–	–
Liquidity – Foreign currency banking unit operations (%) (Minimum requirement – 20%)	37.08	26.24	41.31	–	–	–
Liquidity coverage ratio – Rupee (%) (Minimum requirement – 80%)	160.30	129.27	24.00	–	–	–
Liquidity coverage ratio – All currency (%) (Minimum requirement – 80%)	121.94	111.11	9.75	–	–	–
Other ratios (%)						
Price earnings ratio – voting (Times)	6.93	7.74	(10.47)	–	–	–
– non-voting (Times)	4.45	5.07	(12.23)	–	–	–
Dividend cover (Times) – Note	3.57	3.58	(0.28)	–	–	–

Note: Dividends are accounted for as per the Sri Lanka Accounting Standard – LKAS 10.

Operational Highlights



Through the consistent growth in our Key Performance Indicators, we maximise value for our shareholders.

14.30%
Return on Equity

LKR 3.50
Dividend per share

LKR 12.58
Earnings per share



We have committed ourselves to serving our customers with our hearts.

166
Banking centres

205
ATMs in total

3
SME Hubs opened

9
Cash Deposit Machines (CDMs)

185
Relationship officers across the country

Over 100
Direct sales officers



We pride ourselves on being a leader in offering equal employment opportunities and supporting diversity and inclusion.

78,610
Total Number of training hours

LKR 1.38 Mn.
Profit per employee

180 Staff
Growth in workforce

57 Years
Retirement age



We are firmly committed to building loyal relationships with our business partners that are mutually beneficial and enriching.

Ethical
Procurement policy and process

Over 500
Registered suppliers

Over 320
Correspondent banks



We are committed to going beyond our national obligation to meet social and environmental needs and contribute for development of the community and the country.

Over LKR 15 Mn.
On fostering education

33
Libraries Opened in 2017, increasing the total "Pahasara" libraries to 153

ESMS
To manage environmental and social impact

141,624 Kg
Paper recycled

Letter from the Chairman

Our focus throughout the year has been on achieving sustainable growth without pursuing growth for its own sake



Dear Shareholders,

Seylan Group achieved a significant milestone when it recorded a Group profit after tax of LKR 5.0 Bn. in 2017. The Bank continued its consistent growth and performance during the year. The momentum created is expected to lead the Bank to greater heights in the years ahead.

Coupled with these positive results, the adoption of the 4-year 2017-2020 Strategic Plan (Seylan 2020), is expected to lead us to greater profitability, increased relationship with our customers and the augmentation of their positive experiences. The Strategic Plan is focused on improving mobilisation of cost effective funding, expansion of SME, retail and corporate business segments, introduction of lean branch concept, digitalisation and the strengthening of our IT platforms. The strategies encompassing these key areas, we believe will position ourselves not only as a strong bank, but also as dynamic player in the industry.

Our performance

Our focus throughout the year has been on achieving sustainable growth without pursuing growth for its own sake.

Slow economic activity in the first half of the year somewhat restrained the growth opportunities for the Bank. Despite this, the Bank achieved a 10% growth in its profit after tax while the Group profit after tax crossed the LKR 5 Bn. milestone for the first time.

The Bank's approach has been to engage with its customers and other stakeholders to understand the challenges and work together to build more sustainable businesses that contribute positively to our economy, society and environment. Our Environmental and Social Management Policy details the Bank's commitment to responsible financing and is supported by the Environmental and Social Management System (ESMS) which sets out the framework to systematically manage environmental and social risks at the Bank.

Our footprint

We, as a Bank, have always pursued our desire to expand our presence geographically. With 166 banking centres in operation, majority of them recently refurbished and adopting the strategy of taking the Bank to the customer, we believe that we have created a substantial opportunity to grow our business aggressively.

With the Government expressing its intention to spread the economic activity across the country, we have positioned ourselves well to take advantage of opportunities that will inevitably be created with our island-wide branch network.

Regulation and supervision

The implementation of Basel III and the application of accounting standard SLFRS-09, demand greater focus and impose responsibilities on the operations of the banking industry. Our prudent approach, in all matters of banking, has prepared us well, to comply with these imperatives.

Our commitment to good corporate governance and risk management frameworks is without compromise. The practice of the highest standards in this regard has been embedded into our culture to make sure we are fully compliant and function with a healthy balance between risk and return.

Our Strategic Plan 2017-2020 will foster sustainable growth through selective diversification and prudent decision-making

Our future strategy

Our Strategic Plan 2017-2020 is designed to provide a roadmap for the Bank to further enhance its growth and sustainability. It is our intention to selectively diversify and grow the business responsibly and exercise prudence in our decision-making processes.

Appreciation

I am conscious of the commitment with which the Chief Executive Officer Mr Kapila Ariyaratne and the entire staff of the Bank have been partners in our journey in 2017. I congratulate them all and look forward to their continued commitment to achieve our common purpose of leading our Bank to unparalleled success. I also take this opportunity to thank all members of the Board for their singular commitment and contribution.

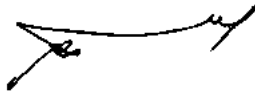
On behalf of the Board I thank Rear Admiral Ananda Peiris who retired this year after completing nine years on the Board of the Bank and wish him all the very best in his future endeavours.

We engage with stakeholders to build sustainable businesses that contribute meaningfully to the wider Community and Environment

We thank all our valued customers, our shareholders and all other stakeholders and look forward to their patronage and support in our journey to greater heights. Your association with the Bank has been a great source of strength to us on this journey.

We also thank the regulators for the guidance and support extended to us at all times.

My sincere thanks and best wishes go out to every one of you.



W M R S Dias
Chairman

16 February 2018

2017 saw the journey that began in 1987, step up a leap, with the inception of our new strategic plan 2017-2020.

The key pillars of the strategic plan (“Seylan 2020”) focus on enhancing our approach to retail and SME customers, improving the CASA, making our branches smaller and lean and transforming the Bank to a digital bank.



Letter from the Director/ Chief Executive Officer

“Seylan 2020” is designed to focus on developing and refocusing our operating rhythm especially around retail banking and SME, improving efficiencies at branches, enhancing our commercial banking proposition while strengthening the risk management, compliance, technology, and support functions capabilities at the same time



Delivering now, with an eye on the future

After a slow start, activity gathered pace in the latter half of the year leading to the results that are presented to you through this report. We also devoted a considerable amount of time and effort to look ahead to the future which enabled us to finalise Our Strategic Plan 2017-2020 (“Seylan 2020”) that will guide the Bank into a position of strength and added sustainability. Thus while giving the reader a comprehensive look at our performance in 2017 we have strived in this Annual Report to also paint a clear picture of **the Bank we will be** in the next few years.

“Seylan 2020” is designed to focus on developing and refocusing our operating rhythm especially around retail banking and SME, improving efficiencies at branches, enhancing our commercial banking proposition while strengthening the risk management, compliance, technology and support functions capabilities at the same time.

Our 2017 performance

Performances in the banking industry are inextricably tied to the developments in the country’s economy while policy measures supporting fiscal consolidation and monetary tightening positioned the country’s economy for an improved outlook, 2017 saw the country experience floods on the one hand and drought on the other. This affected the macro economic performance of the nation and infected our clientele in the affected area.

The Bank has, over the several years, been able to achieve consistent growth while maintaining its financial strength and stability. Though the challenges have been many, we have, through our operating strategies been able to circumvent obstacles and succeeded in moving the Bank steadily forward, as is evident from our results. During 2017, while focusing on our middle market and SME clients which have been our traditional strength, we grew both our retail and corporate portfolio, substantially and expect to build steadily on this going forward. Our treasury as always was a source of strength and profitability to us and worked closely with the other business units to provide an excellent service to our clients engaged in foreign trade and fixed income activities.

During the year, special emphasis was laid on upgrading our IT platform in order to improve our digital interface with our customers and the efficiency of our internal operations. We also empowered and enabled our branch staff throughout the country to reach out to our existing and potential clients more proactively thus enhancing the experience of our customers in all their dealings with the Bank. Our emphasis continues to be on creating value for our customers in an environment of friendship and convenience thus living by our tagline “The bank with a heart”.

Our New Strategic Plan 2017-2020

“Seylan 2020” is the blueprint that repositions and takes the Bank forward. I am excited by the direction we are taking under this plan especially now that its impact on our staff and customers are evident. With the true Seylan Spirit, our front line staff has all embraced the new operating framework and have been spurred on by the positive reaction of our existing and potential customers. They have seen first hand, the benefits that the Bank can provide to a wide range of people, from the farmer in a remote location to the budding entrepreneur who needs some guidance in establishing their business in a sustainable manner while keeping our long standing and loyal customers happy and content with the excellent service that they are used to and expect from Seylan Bank.

“Seylan 2020” is the blueprint that repositions and takes the Bank forward. I am excited by the direction we are taking under this plan especially now that its impact on our staff and customers are evident

We have invested and will continue to invest heavily on developing resources and methodologies to enhance our interaction with the SME sector. For the first time in our history, we were successful in securing long-term funding totalling USD 75 Mn. to support our SME drive from a consortium consisting of several Development Finance Institutions/funds and a commercial bank. While this is a significant boost to activities targeting SMEs we also see this

long-term funding arrangement as a recognition of all what we have done over the past few years to ensure that our growth and expansion is underpinned and supported by equally robust risk management and governance frameworks.

The introduction of cutting edge technology is now giving us the opportunity to ensure seamless delivery of our services and products across multiple channels to our customers, while enabling us to have much keener insights of our customers’ needs and preferences. This in turn will enable us to increase the quality and speed of our responsiveness to the ever changing needs and priorities of our customers. As part of the process supporting these initiatives of “Seylan 2020”, the Bank has set-up a Project Management Office to monitor performances at all the branches, reward

outstanding performances and encourage the successful implementation of the initiatives with quick attention to iron out any unforeseen wrinkles.

The Seylan Family

This year 2018 will see us reach our 30th year of operation.

While our anniversary may appear relatively “young” as compared to some others in the industry, Seylan Bank is proud of what it has achieved over this period and the positive contribution it has

The Bank has always taken its social and environmental responsibilities seriously and has had a strong focus on sustainability and community engagement

made to the industry and the economy in general and to our customers and stakeholders in particular. Its three decades of operation has seen the Bank emerge triumphant from troubled times and lay a solid foundation for a future where no such worries will ever exist. All the best technology in the world cannot replace the loyalty, dedication and commitment of the 3,199 staff we now have in our employ. They enjoy

an inspiring and enabling working environment where everyone is given the opportunity to achieve their full potential, and have embraced our forward looking initiatives with the usual enthusiasm and commitment.

Our footprint

Over 100 of our 166 banking centres have been refurbished and equipped with state-of-the-art technology to facilitate our dealings with our customers. This network is supplemented by 205 ATM machines and an ever increasing array of CDMs. But the true expansion of our network is in how our staff will reach out to our customers in order to take the Bank to the customer in a manner that enhances speed of delivery and customer convenience significantly.

Capital

The implementation of the new global regulatory standard – Basel III, will bring more pressure to bear on our Capital Adequacy Ratios. We have been keenly aware of the impending requirements and have taken steps to ensure that we will operate well above the required minimum regulatory capital and liquidity requirements at all times.

Contributing to the communities

The Bank has always taken its social and environmental responsibilities seriously and has had a strong focus on sustainability and community engagement.

Our “Seylan *Pehesara*” Library Project which was launched in 2012 has continued apace with the addition of 33 Libraries in 2017, bringing the total to 153. We are keenly aware of the impact that our own activities as well as those of our customers may have on the environment and have processes in place to manage and reduce such impact.

Appreciation

Our achievements, as always, are a result of the combined efforts of everyone, from the Board of Directors to the most junior employee. Each member has a part to play and they have as one team participated and contributed, with wholehearted commitment, towards realising our goals.

I thank the Board of Directors, Corporate and Executive Management and all members of our staff for their unstinted commitment and contribution at all times. My grateful thanks also go out to our shareholders and our loyal and supportive customers who continue to place their confidence in Seylan Bank and providing a constant source of guidance and encouragement that drives the Team Seylan forward. We look forward to sustaining our close engagement with them as we guide this organisation to greater heights.



Kapila Ariyaratne

Director/Chief Executive Officer

16 February 2018

Sustainable Stewardship

Good governance is integral to the management of Seylan Bank and forms the character of the organisation. The Bank strives to fulfil its economic, social and environmental responsibilities by subjecting all its activities to processes that satisfy the Bank's requirements for accountability, transparency, responsiveness to customer needs, is participatory, effective and efficient

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Board of Directors

A multi-disciplinary group of persons forms the Board of Directors, where their passion for business, their ability, commitment and strong desire for stewardship have resulted in a Bank that values good governance



The profiles of the Directors who were on the Board as at the date of this Report are given below. Directors' interest in the ordinary shares and the debentures of the Bank, their directorships and substantial shareholdings in other entities are given in the Report of the Board of Directors on the State of the Affairs of the Company published on pages 71 to 83 of this Annual Report.

1

Mr W M R S Dias
Non-Executive
Director/Chairman

Qualifications:

FCIB (UK), LLB, Hubert H Humphrey Fellow.

Appointed to the Board:

29 May 2015 as a Non-Executive Director and was appointed as its Chairman on 9 May 2016.

Membership on Board subcommittees:

Board Nomination Committee, Board Governance and Compliance Committee, Board Integrated Risk Management Committee and Board Marketing and Product Development Committee.

Other Positions in the Bank:

Trustee of the Seylan Bank Employees Gratuity Trust Fund.

Skills and Experience:

Senior Banker with years of banking experience. He was lastly serving as the Managing Director/Chief Executive Officer of Commercial Bank of Ceylon PLC. Mr Dias is the Co-Chair of the National Agenda Committee on Finance and Capital of the Ceylon Chamber of Commerce.

Mr Dias has served on the Boards of Commercial Development Company PLC, Commercial Insurance Brokers (Pvt) Limited, LankaClear (Pvt) Limited, Lanka Financial Services Bureau Limited and was a Council Member of the Employers Federation of Ceylon.

2

**Mr Ishara C
Nanayakkara**
Non-Executive
Director/Deputy
Chairman

Qualifications:

Diploma in Business Accounting and Finance (Aus).

Appointed to the Board:

24 November 2009 as a Non-Executive Director and was appointed as its Deputy Chairman with effect from 17 January 2013.

Membership on Board subcommittees:

Board Credit Committee (Chairman), Board Sustainability Committee (Chairman,) Board Nomination Committee, Board Human Resources and Remuneration Committee and Board Strategic Plan Committee.

Skills and Experience:

Mr Nanayakkara is a prominent entrepreneur serving on the Boards of many corporates and conglomerates in the Asia Pacific Region. He ventured into financial services in early 2000 with a strategic investment in LOLC PLC and was appointed to its Board in 2002. Currently, he is the Deputy Chairman of the LOLC Group and holds many directorships in its subsidiaries and associate companies.

Mr Nanayakkara has over 20 years of professional experience in the industry with a strategic focus on the financial services sector, when he previously served as the Chairman of Commercial Leasing & Finance PLC, one of Sri Lanka's leading financial service providers, as well as Chairman of LOLC Micro Credit Limited, the largest private sector microfinance institution in the country. Currently, he plays an active role on the Boards of several top finance companies such as LOLC Finance PLC, BRAC Lanka Finance PLC and LOLC Life Assurance Limited.

His forte in microfinance has led the LOLC Group to new heights not just in Sri Lanka, but with an offshore portfolio in Cambodia, Myanmar, Pakistan and many more countries in the pipeline. Notably, he currently holds a directorship at PRASAC, the largest microfinance company in Cambodia.

Mr Nanayakkara's interest in microfinance led to the inauguration of LOLC Myanmar Micro Finance Company Limited, a green field investment in Myanmar in which he was the founding Chairman and currently serves as a Director. His proficiency in microfinance in the region is further demonstrated by his involvement at strategic level in LOLC Cambodia Limited, the 5th largest microfinance company in Cambodia. He is also a Director of Pak Oman Microfinance Bank Limited, a joint venture based in Pakistan between the Governments of the Islamic Republic of Pakistan and the Sultanate of Oman.

Mr Nanayakkara's motivation to expand into various growth peripheries is further illustrated through his role as the Executive Chairman of Brown & Company PLC and Browns Investments PLC. Through strategic investments, he is committed to catalysing development in the growth sectors of the Sri Lankan economy such as construction. His passion for sustainable investment is reflected through his involvement in renewable energy, forestry and plantations. His involvement in the Boards of leading Companies of these sectors such as Sierra Constructions (Pvt) Limited, AgStar Fertilisers PLC and Associated Battery Manufacturers (Ceylon) Limited reflects such business philosophy.

Endorsing his entrepreneurial spirit, Mr Nanayakkara received the prestigious "Young Entrepreneur of the Year" Award at the Asia Pacific Entrepreneurship Awards (APEA) in 2012.

3

Ms M Coralie Pietersz
Independent Director/Senior Director

Qualifications:

BSc (Hons.) Physics (University of Sussex), MBA (Heriot-Watt University, Edinburgh), ACA (ICA England and Wales), FCA (CA Sri Lanka).

Appointed to the Board:

23 September 2013 as an Independent Director and was designated as its Senior Director with effect from 9 May 2016.

Membership on Board subcommittees:

Board Audit Committee (Chairperson), Board Integrated Risk Management Committee, Board Human Resources and Remuneration Committee, Board Governance and Compliance Committee, Related Party Transactions Review Committee and Board Nomination Committee.

Skills and Experience:

Has over 25 years experience at senior levels in corporate finance, accounting and auditing in several industries in both private and public sectors including several years of experience in the banking sector. Currently, she is the Finance Director of Finlays Colombo Limited, Hapugastenna Plantations PLC and Udapussellawa Plantations PLC. Prior to joining Finlays Colombo Limited, Ms Pietersz was the Group Chief Financial Officer of Richard Peiris & Co. PLC.

She is a former member of the Council of The Institute of Chartered Accountants of Sri Lanka and has served on many committees of the Institute.

4

Mr Kapila Prasanna Ariyaratne
Director/Chief Executive Officer

Qualifications:

BSc (Hons. – First Class), University of Colombo.

Appointed to the Board:

16 February 2015 as an Executive Director.

Membership of Board subcommittees:

Board Credit Committee, Board Sustainability Committee, Board Marketing and Product Development Committee, Board Integrated Risk Management Committee and Board Strategic Plan Committee.

Other Positions in the Bank:

Trustee of the Seylan Bank Employees' Gratuity Trust Fund and Seylan Bank Employees' Provident Fund.

Skills and Experience:

Mr Kapila Ariyaratne joined the Bank in March 2011 as the General Manager/Chief Executive Officer and was appointed to the Board in February 2015. He counts over 30 years experience having worked for several local and international banks acquiring an in depth knowledge of all aspects of banking both in a local as well as in an international context. He is a holder of Diploma in Business and Financial Administration and is a Member of the present Governing Board of the Institute of Bankers of Sri Lanka.

5

Mr Samantha P S Ranatunga
Independent Director

Qualifications:

MBA (UK), BSc (Hons.), University of Delhi.

Appointed to the Board:

12 January 2010 as a Non-Executive Director and was re-designated as an Independent Director in 2011.

Membership on Board subcommittees:

Board Audit Committee, Board Nomination Committee (Chairman), Board Integrated Risk Management Committee (Chairman), Board Human Resources and Remuneration Committee (Chairman), Board Marketing and Product Development Committee (Chairman) and Board Strategic Plan Committee (Chairman).

Other Positions in the Bank:

Trustee of the Seylan Bank Employees Gratuity Trust Fund.

Skills and Experience:

Over 25 years experience in the field of management, marketing and managing FMCG business. Joined the Board of CIC on 21 May 2002, appointed as the Chief Operating Officer in February 2005 and as the Managing Director/Chief Executive Officer in April 2009. He is a Non-Executive Director of a number of unlisted companies in the CIC Group including Akzo Nobel Lanka Paints (Pvt) Limited and a Non-Executive Director of Chemanex PLC. He is the Vice-Chairman of the Ceylon Chamber of Commerce and has led the Sri Lanka Chamber of Commerce delegations to various countries.

He had been a pioneer in coordinating and setting up of CIC Agribusiness which is a premier agricultural company in Sri Lanka. He has helped in developing the seed to shelf concept where 20,000 farmer families are helped to bring produce to end consumers. He has also studied the agricultural measurement and productivity systems in many countries.

6

Mr W D Kapila Jayawardena
Non-Executive Director

Qualifications:

MBA (Financial Management), FIB, Associate, ICEA (London).

Appointed to the Board:

1 August 2013 as a Non-Executive Director

Membership on Board subcommittee:

Board Audit Committee

Skills and Experience:

Former CEO and Country Head of Citibank N A Sri Lanka. Has varied experience in the fields of Investment Banking, Banking Operations, Audit, Relationship Management, Corporate Finance, Corporate Banking and Treasury Management. Was appointed as the Chairman of the Sri Lanka Banks' Association (SLBA) in 2003/2004. Has served as the President of the American Chamber of Commerce in Sri Lanka in 2006/2007 and was appointed to the Financial Sector Reforms Committee (FSRC). A member of the National Council of Economic Development (NCED) and has also served as a Board Member of the United States-Sri Lanka Fulbright Commission. Joined LOLC in the year 2007 as the Group Managing Director/CEO and heads the business and operating functions of LOLC Group. He is a member of the main Board of the LOLC Group.

7

Mr P L S Kumar Perera
Independent Director

Qualifications:

BSc (Special) (Mathematics) University of Colombo, MSc in Statistics, University of Ibadan, MA (Economics and Econometrics), University of Manchester.

Appointed to the Board:

23 September 2013 as an Independent Director.

Membership on Board subcommittee:

Board Audit Committee, Board Governance and Compliance Committee (Chairman), Board Nomination Committee, Related Party Transactions Review Committee (Chairman) and Board Integrated Risk Management Committee.

Skills and Experience:

Over 22 years of executive and managerial experience in the Central Bank of Sri Lanka. Has received extensive training and exposure in capital markets, portfolio management and new financial instruments locally and overseas. Held the position of Additional Controller of Exchange at the time of his retirement from the Central Bank of Sri Lanka and has also held the position of Deputy Director, Marketing of the Agricultural Development Authority prior to his posting at the Central Bank of Sri Lanka. Serves as a Consultant in reputed private sector organisations. Has served the Task Force appointed by the Central Bank on Reforms to Exchange Control and represented the Central Bank at Asia Pacific Group 3rd Annual Meeting on Money Laundering held in Australia and at the Indo-Sri Lanka Director-General Level Meeting on Anti-Smuggling held in India in 2003.

8

Mr S Viran Corea
Non-Executive Director

Qualifications:

Bachelor of Laws (LL.B) and Master of Laws (LL.M) (University of Colombo), Attorney-at-Law.

Appointed to the Board:

14 May 2015 as a Non-Executive Director.

Membership on Board subcommittee:

Board Governance and Compliance Committee, Board Sustainability Committee and Related Party Transactions Review Committee.

Skills and Experience:

Counsel and Legal Consultant with over 20 years experience at the Bar. His experience in private practice has included the fields of constitutional and administrative law, human rights law, commercial law, industrial law, arbitration, contract law and land law. He has been involved as counsel in a number of landmark cases of national and public importance reported in the Sri Lanka Law Reports. In 2012, he was picked as an Asia Society Asia 21 Young Leader.

He has served as a State Counsel at the Attorney General's Department of Sri Lanka for several years and has represented in court and advised Government Departments and state institutions in several important matters. He is also a Graduate Member of the Sri Lanka Institute of Directors (SLID), having successfully completed its Board Leadership Director Certification Programme.

9

Mr Anushka S Wijesinha
Independent Director

Qualifications:

MA Economics and Development [University of Leeds Business School, UK], BSc (Hons.) Economics [University College London, UK].

Appointed to the Board:

1 December 2016 as an Independent Director.

Membership on Board subcommittee:

Board Credit Committee, Related Party Transactions Review Committee, Board Strategic Plan Committee and Board Marketing and Product Development Committee.

Skills and Experience:

Mr Anushka Wijesinha is an economist with a track record of research and advisory work across Asia. He has published many national and international publications, focusing on innovation, private sector development and international economics. He is currently heading Trade, Competitiveness and Innovation as Programme Director in the Ministry of Development Strategies and International Trade. Formerly, he was the Chief Economist of the Ceylon Chamber of Commerce and head of the Economic Intelligence Unit.

Mr Wijesinha was an Asia Development Fellow of the Korea Development Institute; he has headed the Industry Competitiveness and Regulatory Policy Unit at the Institute of Policy Studies; was Research Officer to the Presidential Commission on Taxation; and was Assistant Director of Economic Affairs at the Government Peace Secretariat. Mr Wijesinha has previously undertaken consultancies for the World Bank, ADB, UNDP, GIZ and UNESCAP.

He is a "New Champions" awardee of the World Economic Forum and a member of the World Economic Forum Global Shapers Colombo Hub.

10

Mrs Sandya K Salgado
Independent Director

Qualifications:

MBA (International) Edith Cowan University, Perth, Australia, BA (English, French, Linguistics) University of Kelaniya, Sri Lanka, MCIM – UK.

Appointed to the Board:

1 December 2016 as an Independent Director.

Membership on Board subcommittees:

Board Human Resources and Remuneration Committee, Board Sustainability Committee, Board Marketing and Product Development Committee and Board Strategic Plan Committee.

Skills and Experience:

Mrs Salgado is a specialist in Strategic Communications and Sustainable Business Management with over thirty years of management experience in both corporate and development sectors. She is also trained at Johns Hopkins University in Baltimore, USA, in Strategic Communications. She was hand picked by Ogilvy Worldwide to introduce the concept of Brand Activation to Sri Lanka and as the CEO of Ogilvy Action, she launched, led and managed this company for twelve years.

As a professional marketer, Mrs Salgado has helped build and manage iconic brands and authored ground breaking marketing strategies during her tenure in the corporate sector. During this period, she worked extensively in the Financial and Banking sectors managing both local and international banking and financial brands. She was awarded the title "Marketer of the Year" in 2001 for her unique contribution to marketing through the concept of Brand Activation and was also awarded "Zonta Woman of Achievement" in 2006 in recognition of her contribution to socially responsible marketing communications in the country.

Moving into the development sector, Mrs Salgado has served as the Senior Communications Specialist at the World Bank, providing advice and guidance to manage the image and reputation of the Bank and the Bank-funded projects in Sri Lanka and the Maldives. She held this position until she resigned in 2015.

Mrs Salgado is the Managing Partner of her consulting company Good Karma, through which she promotes the concept of Sustainable Business Management. Fulfilling her social obligations, she serves as a member of the board of management of the Lakshman Kadirgamar Institute for International Relations and Strategic Studies, as a board member of Lebara Foundation, Council member of the University of Sri Jayewardenepura and Secretary of the International Film Producers' Association of Sri Lanka.

Senior Management Team

Director/CEO and Deputy General Managers

The Bank's operations, effectively led by the Director/CEO, are anchored by a senior management team who performs consistently in leading the organisation to achieve sustainable performance



Name and position	Qualifications and years of overall experience
1 Mr Kapila Ariyaratne Director/Chief Executive Officer	BSc (Honours – First Class), University of Colombo Over 30 years
2 Mr Wijitha Rohana Deputy General Manager – Branch Credit	Associate member of Institute of Bankers of Sri Lanka, Postgraduate Diploma in Business and Financial Administration – The Institute of Chartered Accountants of Sri Lanka 38 Years
3 Mr Chitral De Silva Deputy General Manager – Branches	Executive Diploma in Business Administration – University of Colombo 35 Years
4 Mr Tilan Wijeyesekera Deputy General Manager – Retail Banking	FSLIM, Practicing Marketer (SL), Postgraduate Diploma in Marketing 21 Years
5 Mr Ramesh Jayasekara Chief Risk Officer	Associate of The Institute of Chartered Accountants of Sri Lanka, Bachelor of Commerce (First Class) – University of Colombo, Associate of Chartered Institute of Marketing – UK, Associate of Institute of Certified Management Accountants 19 Years
6 Mr Delvin Pereira Deputy General Manager – Consumer Finance	Master's in Business Administration – University of Western Sydney, Certified Management Accountant – Australia 31 Years
7 Mr Najill Farouk Deputy General Manager – Corporate Banking	Associate of Institute of Bankers of Sri Lanka, Master's Degree in Business – University of Colombo 34 Years
8 Mr Jayantha Amarasinghe Deputy General Manager – Human Resources	Master's in Business Administration – Buckinghamshire New University, Bachelor of Law (LLB) – University of Colombo, Attorney-at-Law, National Diploma in Human Resources, Management – IPM, Postgraduate Diploma in Management – SLIM, Postgraduate Diploma in International Relations 24 Years
9 Mr Piyal Hennayake Deputy General Manager – Project Finance	BSc – Engineering Honours, Postgraduate Diploma in Engineering, MBA in Management of Technology Chartered Engineer, Member – IESL, Graduate Member – SLID 23 Years
10 Ms Champika Dodanwela Chief Financial Officer	Master's in Business Administration – University of Colombo, Fellow member of ACCA UK, Associate member of Certified Management Accountants, Fellow member of Institute of Bankers Sri Lanka, BSc Applied Accounting – Oxford Brooks UK, BSc Management – University of Sri Jayewardenepura 27 Years
11 Mr Harsha Wanigatunga Deputy General Manager – Information Technology	Bachelor of Science – Computer Design – University of Houston – Clear Lake, Master of Science – Computer Engineering – University of Houston – Clear Lake 22 Years
12 Mr Malik Wickramanayake Deputy General Manager – Operations	BA in Business and Administration – Institute of Technological Studies, BA in Business and Admin Studies – Lewis and Clark College, USA 22 Years

Senior Management Team

Assistant General Managers

The Assistant General Managers function as a coherent senior management team who forms part of the leadership of the Bank



Name and position	Qualifications and years of overall experience
1 Ms Rohini Weerakkody Assistant General Manager – Operations	Associate of the Institute of Bankers of Sri Lanka, Diploma in Bank Management – IBSL, Master’s in Business Administration (Hudersfield), ICA International Diploma in Compliance – International Compliance Association 34 years
2 Ms Yasanthie Udurawane Assistant General Manager – Credit Administration	AIB – Part I 35 years
3 Mr Shanaka Perera Head of Treasury	Masters in Business Administration – PIM – University of Sri Jayewardenepura, FIB – Institute of Bankers of Sri Lanka, PG. EX. Diploma in Bank Management – Institute of Bankers Sri Lanka, CMA – ICMA, Australia, ACI DC, Diploma in Treasury and Risk Management – IBSL 27 years
4 Mr Wasantha Karunaratne Assistant General Manager – Services	Diploma in Purchasing and Materials Management 26 years
5 Mr Kapila Rathnayake Assistant General Manager – Premises and Maintenance	BSC – Engineering Honours, MBA (PIM – University of Sri Jayewardenepura) Chartered Engineer, Corporate Member of Institution of Engineers 16 years
6 Ms Kaushalya Hatch Head of Legal	Attorney-at-Law 31 years
7 Mr Aruna Fernando Assistant General Manager – Risk Management	Master’s in Business Administration – PIM, University of Sri Jayewardenepura, AIB (Sri Lanka), Postgraduate Level Certificate Course in Modern Commercial Banking – PIM, University of Sri Jayewardenepura, Special Course Credited by GARP on Bank Risk Management, Euromoney Learning Solutions 29 years
8 Mr Varuna Koggalage Head of Audit	Associate member of The Institute of Chartered Accountants – Sri Lanka 22 years
9 Mr Nirmal Costa Assistant General Manager – Finance	Fellow member of The Institute of Chartered Accountants – Sri Lanka (FCA), Chartered Financial Analyst (CFA), Certified Financial Risk Manager (FRM) 19 years
10 Mr Nuwan Jayawardane Assistant General Manager – IT Infrastructure	BSc in Computer Engineering – New Jersey Institute of Technology, MBA in Finance – University of Colombo 22 Years
11 Ms Sharon Fonseka Assistant General Manager – Coporate Credit Branches	Associate member of the Institute of Bankers of Sri Lanka 28 Years
12 Ms Nisha Najumudeen Company Secretary	Associate member of the Institute of Chartered Secretaries and Administrators (UK), Associate member of the Institute of Chartered Corporate Secretaries of Sri Lanka 27 Years
13 Mr Eranga Lankatilaka Assistant General Manager – Recoveries	Associate member of the Institute of Bankers of Sri Lanka, Master’s in Business Administration – Rajarata University of Sri Lanka 26 Years
14 Mr Chandana Gurusinghe Assistant General Manager – Branches	Certificate in Business (Frontline Management) 31 Years
15 Mr Ranil Dissanayake Assistant General Manager – Small and Medium Enterprises	Associate member of the Institute of Bankers of Sri Lanka, Certificate course in Project Finance – Institute of Bankers of Sri Lanka 26 Years
16 Ms Dilani Sooriyaarachchi Head of Compliance	Attorney-at-Law, Associate member of the Institute of Bankers of Sri Lanka (AIB), Fellow of the International Compliance, Association of UK (FICA), Post Attorney Diploma in Banking and Insurance Law, Postgraduate Diploma in Business Management – University of Colombo, Diploma in Credit Management – Institute of Credit Management of Sri Lanka 20 Years

How we Govern

Corporate Governance

Chairman's Statement

The term "Corporate Governance" has been defined in different ways by various governance organisations across the world and it varies in different cultural contexts. However, every definition focuses on one key objective, i.e. protecting the interest of the stakeholders. To achieve same, an organisation's governance structure specifies the entrusting of responsibilities and authority among different participants of the organisation, namely, the Board, the Management, shareholders and other stakeholders and establishes processes and controls internally and externally over the management of the business entity.

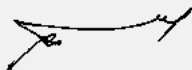
The Board of Seylan Bank PLC focuses on influencing, assessing and monitoring good corporate culture with a view to strengthening the same throughout the organisation. It also ensures that the regulators, shareholders as well as the general public are provided with precise and accurate information on the financial, operational and other aspects of the Bank. The Bank's governance principles and responsibilities specified in the Corporate Governance Framework, Code of Ethics, Code of Conduct as well as in its various policies, charters, etc., approved by the Board endorse these requirements.

The Board at the beginning of the year agreed that the main objective of the Board for the year shall be the focus on ensuring the effective implementation of the Strategic Plan 2017-2020. In order to work on same a key initiative executed by the Board during the year was the constitution of the Strategic Plan Committee, on the recommendation of the Board Governance and Compliance Committee. The Strategic Plan Committee at the meetings held during the year reviewed, monitored and provided necessary guidance to the Management to drive the Bank's four-year Strategic Plan 2017-2020 in order that the Bank will achieve the objectives.

Statements and Disclosures in compliance with Section 3 (1) (xvi) of the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) and with Section D.5.1 of the Code of Best Practice (2013) on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (Code of Best Practice) are made in the Annual Corporate Governance Report on the pages that follows.

As required in principle D.4.2 of the Code of Best Practice, I affirm that to the best of my knowledge, there was no violation of any of the provisions of the Code of Business Conduct and Ethics.

With the commitment and support of the Board of Directors and the Management in implementing and maintaining a good governance culture within the Bank, I am confident that your Bank's aim of pursuing sustainable business growth will be carried out in a transparent and accountable manner.



W M R S Dias

Chairman

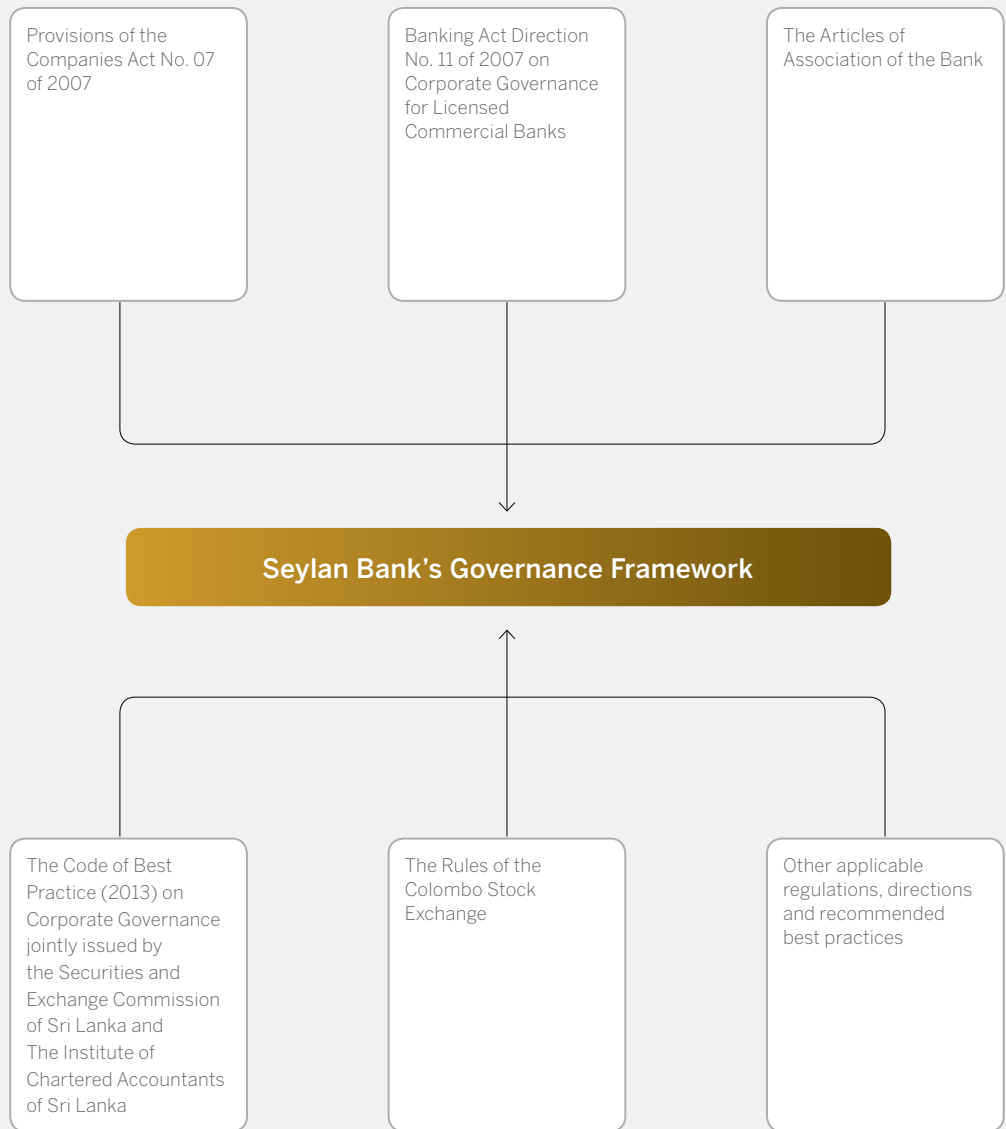
16 February 2018

Colombo

Seylan Bank PLC's Governance Framework

Seylan Bank's approach to corporate governance is guided by the core principles of "Ethical Culture", "Stewardship", "Independence", "Oversight of Strategy", "Oversight of Risk", "Accountability", "Transparency" and "Continuous Improvement".

The Bank's Corporate Governance Framework is mainly based on the following:



The Articles of Association of the Bank

The Bank has adopted its Articles of Association (hereinafter referred to as "the Articles") in accordance with the provisions of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and its Directions. The Bank is governed by the regulations contained in the current Articles. Subject to prior approval of the Central Bank of Sri Lanka and approval of the shareholders by a Special Resolution, the Articles may be repealed and, alterations or additions to the Articles may be effected when deemed necessary and appropriate. Where the provisions of the Banking Act No. 30 of 1988 (as amended) and the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) supersedes that of the Articles of Association of the Bank, provisions of the Banking Act and the said Directions will prevail over the provisions contained in the Articles of Association. However, where the Articles of Association of the Bank set a more stringent standard than that specified in the Banking Act and/or Directions, such provisions in the Articles of Association will be followed by the Bank. [Ref. Direction 3 (9) (iv) of the Banking Act Direction No. 11 of 2007 on Corporate Governance (Banking Act Directions).]

The Board of Directors proactively adopts governance policies and practices designed to align the objectives of the Bank with those of its stakeholders as envisaged in its Vision and Mission Statement and endeavour to promote standards of ethical behaviour and prudent risk management across the organisation.

- **June 2017 – Constitution of the Board Strategic Plan Committee**

Proposed by the Chairman of the Board, the Board Governance and Compliance Committee recommended the formation of a Board Subcommittee for the purpose of monitoring and providing the necessary guidance to the management to drive the implementation of the Bank's four-year Strategic Plan. The proposal was approved by the Board and the Board Strategic Plan Committee was formed.

- **September 2017 – Risk management road map 2017-2020**

The Chief Risk Officer presented the Risk Management Road Map 2017-2020 of the Risk Management Unit to the Board at a meeting held in September 2017 and the Road Map 2017-2020 was endorsed by the Board.

- **November 2017 – Approval of the Environmental and Social Risk Management Policy of the Bank**

The Environmental and Social Risk Management Policy developed by the Bank in consultation with the external consultant engaged for the purpose and the internal business owners was presented to the Board pursuant to a review and recommendation of the Board Sustainability Committee. The Policy recognises the Bank's commitment to integrating environmental and social management considerations into its credit decision making process, procedures and administration including risk management. The Policy was approved by the Board at a meeting held in November 2017.



Corporate Governance Compliance Report

For purposes of compliance with Section 3 (1) (xvi) of the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) and with Section D.5.1 of the Code of Best Practice (2013) on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL), the statements and disclosures made from pages 30 to 53 shall be deemed as the Annual Corporate Governance Report of the Bank.

Rules of the Colombo Stock Exchange (CSE) relating to corporate governance

The Bank, being a listed entity, is bound by and at all times has complied with the applicable Rules and Circulars of the CSE and the Central Depository Systems (Private) Limited as amended or replaced from time to time including the related corporate governance principles. In terms of Section 7.10 (a) of the Listing Rules of the CSE all listed entities are required to include affirmative statements relating to their compliance with the Corporate Governance Rules of the CSE. However, in terms of Section 7.10 (c) of the CSE Rules listed Licensed Commercial Banks (LCBs) are deemed exempted from disclosure requirement under Section 7.10 since such LCBs are mandatorily required to disclose their level of compliance under the relevant law and regulations, i.e. the Banking Act and Banking Act Directions No. 11 of 2007 (as amended) on Corporate Governance. The Bank has adequately disclosed its level of compliance under the said Banking Act Directions in this Report.

Compliance with the Principles of the Code of Best Practice (2013) on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL) (hereinafter referred to as the "Code" or "Code of Best Practice" in this Corporate Governance Report).

In compliance with Principle D.5.1 of the Code of Best Practice, the Bank's extent of compliance with the principles and provisions of the Code under the following main areas of the Code are disclosed below:

	Sections
Directors	Sections A.1 to A.11
Directors' remuneration	Sections B.1 to B.3
Relations with shareholders	Sections C.1 to C.3
Accountability and audit	Sections D.1 to D.5
Institutional investors	Sections E.1 and E.2
Other investors	Sections F.1 and F.2
Sustainability reporting	Section G

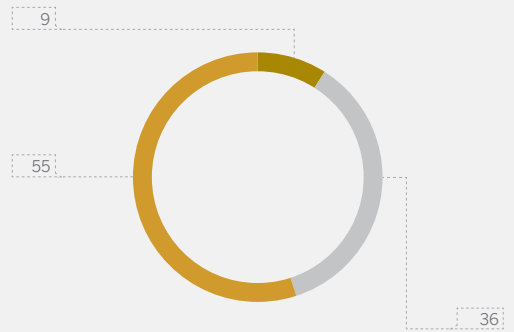
A.1 Directors

An effective Board to direct and control the Company

The Board of Directors comprised ten Non-Executive Directors and one Executive Director (the Chief Executive Officer) during the year. Of the ten Non-Executive Directors, six Directors were Independent Directors. Board appointments mainly focused on diversity in terms of skills, experience, background and gender. The Board also considers the independent status of the Non-Executive Directors on selection and also on an annual basis such that the Board's balance is maintained.

Board balance

- Executive
- Non-Executive
- Independent



(%)

The Directors of the Bank are professionals with diversified expertise in the fields of banking, finance, accounting, insurance, law, economics, research, marketing, strategic communication, as summarised below. The skills, experience and knowledge possessed by them and coupled with a high sense of integrity and independent judgement help the Bank to be steered and controlled effectively in the right direction and achieve its strategic objectives.

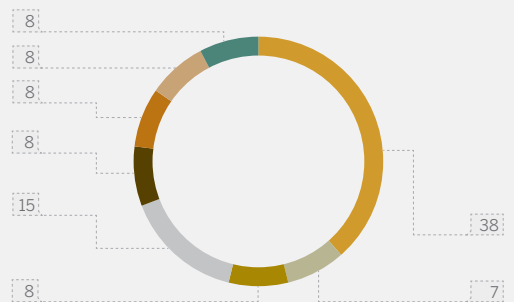
Director	Expertise
Mr W M R S Dias – Non-Executive Director/Chairman	Banking and Finance
Mr I C Nanayakkara – Non-Executive Director/Deputy Chairman	Business, Finance and Insurance
Ms M C Pietersz – Independent Director/Senior Director	Corporate Finance, Accounting, Auditing and Banking
Mr K P Ariyaratne – Director/Chief Executive Officer (CEO)	Banking and Finance
Mr S P S Ranatunga – Independent Director	Marketing and Management
Mr W D K Jayawardena – Non-Executive Director	Banking, Finance, Treasury Management and Audit
Mr P L S K Perera – Independent Director	Banking (Central Bank), Exchange Control, Administration
Mr S V Corea – Non-Executive Director	Law – Commercial, Contract, Civil, Industrial, Constitutional and Human Rights
Mr A S Wijesinha – Independent Director	Macroeconomics; Research, Policy Advisory
Mrs S K Salgado – Independent Director	Strategic Communications and Sustainable Business Management

Rear Admiral B A J G Peiris, Independent Director who had skills and expertise in security and intelligence retired from the Board on 8 January 2018.

Further information on each of the Directors’ professional background and work-related experience is provided on pages 19 to 22 (Profiles of the Directors).

Expertise of the Board of Directors

- Banking and finance
- Business, finance and insurance
- Marketing and management
- Accounting, finance and auditing
- Macro economics; research, policy advisory
- Strategic communications and sustainable business management
- Law
- Treasury management



(%)

A.1.1 Board meetings

Twelve regular Board meetings were held at monthly intervals and seven special Board meetings were held from time to time during the year to consider important and/or urgent issues. The details of the eligibility for attendance as against actual attendance of the Directors at the twelve regular meetings and the five (out of the seven) special meetings convened with due notices during the year are presented in the table on page 32. Inability to attend meetings were informed by the Directors in advance to the Chairman or the Company Secretary and generally attributed to very important business or personal commitments or illness:

Director status/position	Date of Appointment (and changes during the year 2017)	*No. of meetings eligible to have attended	No. of meetings attended	Attendance as a percentage (%)
Mr W M R S Dias Non-Executive Director/Chairman	29 May 2015	17	17	100.00
Mr Ishara C Nanayakkara Non-Executive Director/Deputy Chairman	24 November 2009	16	11	68.75
Ms M Coralie Pietersz Independent Director/Senior Director	23 September 2013	17	16	94.12
Mr Kapila P Ariyaratne Director/Chief Executive Officer	16 February 2015	17	15	88.24
Rear Admiral B Ananda J G Peiris* Independent Director	8 January 2009	17	13	76.47
Mr Samantha P S Ranatunga Independent Director	12 January 2010	17	15	88.24
Mr W D Kapila Jayawardena Non-Executive Director	1 August 2013	16	12	75.00
Mr P L S Kumar Perera Independent Director	23 September 2013	17	14	82.35
Mr S Viran Corea Non-Executive Director	14 May 2015	17	16	94.12
Mr Anushka S Wijesinha Independent Director	1 December 2016	17	15	88.24
Mrs Sandya K Salgado Independent Director	1 December 2016	17	15	88.24

* Rear Admiral B A J G Peiris retired from the Board with effect from 8 January 2018.

Note – Two Special/Emergency meetings held (with the required quorum present) were not taken into account for attendance eligibility due to short notice of less than one working day given.

A.1.2 Board's Roles and Responsibilities

Some of the key responsibilities of the Board are: determining the structure of the management of affairs of the Bank, delegating business operations to the Chief Executive Officer (CEO) appointed by the Board, policy making, risk management and ensuring the implementation of a sound business strategy. Please also refer Section 3 (1) of the Banking Act Directions No. 11 of 2007 compliance status (pages 42 to 44) which provides a comprehensive update of the responsibilities carried out by the Board of Directors.

Delegation of powers and responsibilities to Board subcommittees

The Board is authorised under the Articles of Association to delegate its powers and responsibilities to the Committees established by the Board. The Committees assist the Board in discharging its responsibilities. Memberships of the Committees are structured so as to derive the best use of the skills across the Board. All Committees are chaired by Non-Executive Directors. The Director/CEO attends those meetings of the Committees in which he is not a member, on invitation.

Board subcommittee	Scope and key responsibilities	Report of the subcommittee on page
Board Audit Committee	Overview of responsibilities for the financial reporting process, the system of internal control, the audit process, and the Company's process for monitoring compliance with laws and regulations and the code of conduct.	54
Board Integrated Risk Management Committee	Assess all risks facing the Bank and its associate and subsidiary company/companies i.e., credit, market, liquidity, operational and strategic risks on a regular basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and Group basis. Review the adequacy and effectiveness of all executive risk management committees to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	59

Board subcommittee	Scope and key responsibilities	Report of the subcommittee on page
Board Human Resources and Remuneration Committee	Assist the Board in fulfilling its role and responsibilities involving human resources and remuneration of the Directors, Key Management Personnel and all employees of the Bank as described in the Terms of Reference.	56
Board Nomination Committee	Assist the Board in fulfilling the role and responsibilities involving appointment of Directors and Key Management Personnel of the Bank.	58
Board Credit Committee	Review and where appropriate approve credit facilities or recommend them to the Board for approval; guide management to improve credit policies, procedures and lending guidelines and their implementation; and advise on processes for recoveries, empowerment and accountability for credit decision making.	61
Board Marketing and Product Development Committee	Review the overall marketing plans of the Bank to ensure that the plans aim at optimising value creation for the Bank and support the strategic goals. Assess all deposit, lending and investment products of the Bank on a regular basis and satisfy itself that the Bank is actively pursuing new product opportunities and developing viable products with the aim of achieving business growth.	63
Board Sustainability Committee	Make decisions on behalf of the Board within the framework of the authority while working closely with the representatives of the Executive Sustainability Committee. The GRI (Global Reporting Initiative) Sustainability Reporting Guidelines shall be the guideline for sustainability reporting.	62
Board Governance and Compliance Committee	Assist the Board in adopting appropriate governance standards for the Bank in fulfilling the Board's responsibility for oversight of the corporate governance processes and practices and compliance practices of the Bank consistent with relevant rules, regulations, directions and principles in force and that may come into force from time to time.	64
Related Party Transactions Review Committee	Review related party transactions as required by the Listing Rules of Colombo Stock Exchange and the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka.	66
Board Strategic Plan Committee	Oversee, monitor and provide necessary guidance to drive the Bank's four-year Strategic Plan 2017-2020 and ensure that the Bank achieves the objectives of its four-year Strategic Plan (2017 – 2020) within the set timeliness.	67

A.1.3 Compliance with related regulations and access to independent professional advice

The Board of Directors ensures that procedures and processes are in place such that the Bank complies with all applicable laws and regulations. As regards the requirement to seek independent professional advice as and when such advice is considered necessary, a Board approved procedure is in place enabling Directors to seek such advice at the Bank's expense.

A.1.4 Advice and services of the Company Secretary

The members of the Board have access to the advice and services of the Company Secretary in relation to the Board's responsibilities and procedures in terms of the applicable rules, regulations and best practices.

A.1.5 Independent judgement of Directors

Directors exercise their independent judgment to bear on Board proceedings and assist in strategy formulation and direction at Board level and at Board Subcommittee level on matters brought up before them for recommendations, decisions or approvals which otherwise could have materially interfered with unfettered judgement.

A.1.6 Dedication of adequate time and effort by the Board and Board subcommittees

Notice of meetings, agendas and the related papers/reports were circulated a minimum of seven days prior to the meetings with sufficient time for the Directors to review the papers and call for additional information and/or clarifications. Directors have devoted adequate time at Board meetings as well as Board Subcommittee meetings during the year.

A.1.7 Training for Directors

When a Director is appointed to the Board, the Company Secretary presents them with an updated comprehensive “Introductory document for new Directors” with relevant material information of the Bank, guidelines for Directors including the Corporate Governance Framework, policies and codes relevant to the Directors and also formats of declarations and returns for the Director’s perusal and compliance. Presentations by various heads of business units were also arranged and made at Board meetings during the year which provided an opportunity for Directors to receive a comprehensive understanding and update on the progress of those functions. Directors participated in conferences, seminars and forums. An awareness session on corporate governance and financial transactions aspects facilitated by the Central Bank officials was arranged by the Head of Compliance for the Directors and Senior Management and a majority of the Directors participated in the said session.

Directors’ attendance at Board Subcommittee meetings during the year 2017

“Number of meetings attended” of the “number of meetings eligible to attend” by each Director at each subcommittee meeting

Director	Audit*	Integrated Risk Management	Human Resources and Remuneration	Nomination **	Credit	Marketing and Product Development	Sustainability	Governance and Compliance	Related Party Transactions Review	Strategic Plan
Mr W M R S Dias Non-Executive Director/Chairman		(M) 4 of 4		(M) 4 of 4		(M) 3 of 3		(M) 4 of 4		
Mr Ishara C Nanayakkara Non-Executive Director/Deputy Chairman			(M) 2 of 5	(M) 1 of 4	(C) 17 of 24		(C) 3 of 3			(M) 0 of 3
Ms M Coralie Pietersz Independent Director/Senior Director	(C) 15 of 15	(M) 4 of 4	(M) 5 of 5					(M) 4 of 4	(M) 4 of 4	
Mr Kapila P Ariyaratne Director/Chief Executive Officer		(M) 1 of 4			(M) 17 of 24	(M) 2 of 3	(M) 3 of 3			(M) 4 of 4
Rear Admiral B Ananda J G Peiris*** Independent Director			(M) 5 of 5	(C) 4 of 4	(M) 20 of 24	(M) 3 of 3	(M) 2 of 3	(M) 4 of 4	(M) 4 of 4	
Mr Samantha P S Ranatunga Independent Director	(M) 13 of 15	(C) 4 of 4	(C) 4 of 5	(M) 3 of 4		(C) 3 of 3				(C) 4 of 4
Mr W D Kapila Jayawardena Non-Executive Director	(M) 7 of 15									
Mr P L S Kumar Perera Independent Director	(M) 8 of 14	(M) 3 of 4		(M) 1 of 4	(M) 1 of 2			(C) 3 of 4	(C) 3 of 4	
Mr S Viran Corea Non-Executive Director							(M) 2 of 3	(M) 4 of 4	(M) 4 of 4	
Mr Anushka S Wijesinha Independent Director					(M) 19 of 22	(M) 1 of 1			(M) 3 of 4	(M) 4 of 4
Mrs Sandya K Salgado Independent Director			(M) 4 of 5			(M) 2 of 3	(M) 3 of 3			(M) 4 of 4

C – Chairperson of Committee; M – Member of the Committee;

* Board Audit Committee Meetings – Includes additional four special meetings, three of which were held on two separate days on which regular meetings of the Audit Committee were held.

** Board Nomination Committee – Attendance at an emergency meeting was not considered since it was held at very short notice (of less than one day).

***Independent Director, Rear Admiral B A J G Peiris retired from the Board on 8 January 2018.

A.2 Chairman and Chief Executive Officer

The role of the Chairman and that of the CEO are separate and are not performed by the same individual. There is a clear division of responsibilities of the Chairman, the Board and the Executive Management all of which are duly documented. The Chairman does not engage in activities involving direct supervision of Key Management Personnel or any other executive duties. The CEO functions as the apex executive-in-charge of the day-to-day management of the Bank’s operations and business. He is responsible for the overall management of the operations and business of the Bank as delegated by the Board.

A.3 Role of the Chairman

The Chairman provides leadership to the Board and ensures that the Board members effectively discharge their responsibilities and make an active contribution to the Board’s affairs. He ensures that the Board collectively decides on key issues and discharges its responsibilities effectively. A further description of the Chairman’s Role is provided under Direction Ref: 3 (5) (iv) in the table reporting compliance with Banking Act Directions (page 47).

A.4 Financial acumen

As highlighted in the first paragraph of item A.1, the Board has an adequate number of Directors who possess knowledge and skills in accounting and finance to contribute and offer guidance to the Board to decide on matters which involve financial analysis and finance-related reviews.

A.5 Board balance

A.5.1 Board composition

The Board follows the provisions of the Bank's Articles of Association and that of the Banking Act Direction No. 3 (2) (i) where it is stated that the number of directors on the board of a licensed commercial bank shall not be less than seven and not more than 13. The Board comprised 11 Directors during the year. The composition included one Executive Director, four Non-Independent Non-Executive Directors and six Independent Non-Executive Directors at all times.

A.5.2 to A.5.5 Non-Executive Directors and Independent Directors

The Board complied with the requirements of the Banking Act Direction No. 11 of 2007 [Ref. Section 3 (2) (iv)] where it is stated that the board shall have at least three independent non-executive directors or one third of the total number of directors, whichever is higher. This requirement was maintained throughout the year as described in the preceding paragraph.

The Board has determined the independent and non-independent status of the Non-Executive Directors based on the declarations submitted by them during the year. The declaration takes into account the criteria defined in the Direction No. 3 (2) (iv) of the Banking Act Directions No. 11 of 2007 and in the Section 7.10.4 of the Rules of the Colombo Stock Exchange. No circumstances have arisen for the determination of independence beyond the criteria set out in the said Directions and guidelines.

A.5.6 Alternate Directors

No persons were appointed as alternate directors to the Directors on Board during the year.

A.5.7 and A.5.8 Senior Independent Director/Senior Director

Since the positions of Chairman and CEO are held by two separate individuals there was no requirement to appoint a "Senior Independent Director" as required under principle A.5.7 of the Code. However, in terms of Section 3 (5) (ii) of the Banking Act Directions No. 11 of 2007, Ms M C Pietersz was appointed as the "Senior Director" with effect from 9 May 2016 with a Board approved Terms of Reference, since although the Chairman, Mr W M R S Dias is a Non-Executive Director, he was determined as not "independent" being nominated to the Board by the Sri Lanka Insurance Corporation Limited, a material shareholder of the Bank.

A.5.9 Meeting of Chairman with Non-Executive Directors

The Chairman and the Non-Executive Directors met twice during the year without the presence of the Chief Executive Director (CEO). The Board also discussed matters without the presence of the Director/CEO when matters concerning the Director/CEO were discussed at Board meetings.

A.5.10 Minutes of the Proceedings of Board meetings

Minutes of Board meetings are recorded by the Company Secretary in sufficient detail to enable a proper assessment to be made of the extent of deliberations and any decisions taken at the meetings. The Minutes include concerns raised by Directors, dissenting views of Directors and also the ultimate decisions made by the Board. Directors do not participate when transactions/matters in which they have an interest (Directors' interest or related party interest) are discussed for decision making.

A.6 Information to the Board

A.6.1 and A.6.2

Timely and adequate information/documents (softcopy format) are provided to the Board together with the agenda and minutes of the previous meeting/s seven days prior to the regular meetings giving adequate time for the Directors to study the proposals, recommendations and/or updates in the papers for a meaningful discussion at the meeting. When a notice of a special/emergency meeting is given, the purpose of such a meeting is duly briefed and related information/documents (if any) provided.

The members of the Management attend the meetings when called by the Board to respond to queries raised, explain and to provide additional information. The CEO or the Chairman briefs the Board on matters being taken up at Board meetings and they also ensure to brief the new Directors on the Board, the background of those matters arising from the proceedings of past meetings.

A.7 Appointments to the Board

A.7.1 and A.7.2 Procedure for appointment of new Directors and the Board Nomination Committee

The policy governing appointment of Directors which is in place takes cognisance of the Board's role in this regard. The Board has vested with the Board Nomination Committee (BNC), its responsibility of identifying individuals qualified to become members of the Board and recommending candidates for the Board's selection as Directors whenever the requirement arises for the appointment of an additional Director or filling of a casual vacancy on the Board. This key responsibility is defined in the Terms of Reference of the BNC. Please refer page 58 for its Report for further information on the Committee.

Although the Board has delegated the responsibility for the selection and appointment of Directors to the Nomination Committee, subject to the approval of the Central Bank of Sri Lanka, the Board is ultimately responsible for the selection and appointment of Directors. The Board is also responsible when recommending current Directors who come up for re-election bearing in mind the best interest of the Bank.

A.7.3 Disclosure of appointment of Directors and their profiles

Appointments of new Directors to the Board are informed to the shareholders through announcements to the Colombo Stock Exchange and also on the Bank's corporate website. The status of the Director appointed (whether executive, non-executive or independent), and a brief profile of the Director including the nature and expertise in relevant functional areas, names of companies in which he/she held/hold Directorships or memberships are also conveyed in the said disclosure.

Directors appointed subject to election by the shareholders

In terms of Article 89 of the Articles of Association and Direction 3 (2) (x) of the Banking Act Directions, the Directors appointed are subject to election by the shareholders at the AGM that follows their appointment. Proposals in terms of the said Articles and the said Direction for the election of Mr A S Wijesinha and Mrs S K Salgado who were appointed on 1 December 2016 were included in the Agenda for the AGM held on 31 March 2017 and were approved by the shareholders. No Directors were appointed after the last AGM held on 31 March 2017.

A.8 Re-election of Directors

A.8.1 and A.8.2 Re-election of Non-Executive Directors longest in office

The re-election of Non-Executive Directors is carried out in accordance with the provisions of the Articles of Association of the Bank ("the Articles"). One-third of the Directors (excluding the Executive Directors and any other Directors appointed to fill casual vacancies) who are longest in office retires by rotation at the Annual General Meeting (AGM) and are re-elected if eligible. The Board Nomination Committee looks into this requirement and recommends to the Board, the re-election of the Directors who are due to retire in this manner taking into account their contribution to the Board. Pursuant to obtaining the Board's concurrence of the Committee's recommendation, it is included in the Agenda of the AGM seeking shareholders' approval for the re-election.

Non-Executive Directors who were subject to re-election and re-elected by shareholders at the AGMs held during the last three years are as follows:

2015	Mr Nihal Jayamanne PC and Mr I C Nanayakkara
2016	Rear Admiral B A J G Peiris and Mr S P S Ranatunga
2017	Mr W D K Jayawardena and Ms M C Pietersz

The Board Nomination Committee identified in terms of Article 83 of the Articles and recommended the re-election of Non-Executive Director/Deputy Chairman, Mr I C Nanayakkara and Independent Directors, Mr S P S Ranatunga and Mr P L S K Perera who are due to retire by rotation in terms of Article 82 of the Articles which said recommendations were concurred by the Board and have been included in the Agenda for the AGM scheduled to be held on 29 March 2018.

Reference to the profiles of the Directors who were proposed for re-election is made in the Notice of Meeting/Agenda for the AGM to enable shareholders to make an informed decision.

A.9 Annual appraisal of performance of Board and Board subcommittees

The Board has in place a formal process for reviewing its own performance and that of its committees annually. Every Director is required to complete a detailed questionnaire which aims to obtain Directors' feedback on the Board's performance on many aspects including (but not limited to) the following:

- Structure of the Board and its committees;
- Board culture and relationships with stakeholders;

- Meeting processes;
- Effectiveness of Board proceedings;
- Implementation of strategy;
- Evaluation of performance against goals and targets of the CEO and the KMPs;
- Succession planning and knowledge and skills update.

The responses to the Board evaluation questionnaire from the individual Directors remain confidential with the Company Secretary. The Directors' individual responses to the questionnaire together with any remarks and comments are collated by the Company Secretary and submitted to the Board for information and/or discussion. Areas of concerns are discussed and deliberated collectively by the Board and processes for improvement as appropriate are decided by the Board. The annual evaluation of the Board's performance for 2016 was carried out by the Board in February 2017 pursuant to a review by the Board Governance and Compliance Committee. Review of the annual evaluation of the Board's performance in respect of the year 2017 will be carried out in the first quarter of 2018.

The Board of Directors also submitted reports of their own self-assessments reporting on their extent of contribution to the Board and to the Board subcommittees they represent to the Board meeting held in January 2018 while each of the Board subcommittees carried out an evaluation of the performance of the respective Committee and submitted their reports to the Board in February 2018.

A.10 Disclosure of information in relation to Directors in the Annual Report

The following information is disclosed in the sections of this Annual Report as mentioned below:

Description	Section disclosing the requirement	Page/s
Name, qualifications and brief profile; nature and expertise in relevant functional areas	Profile of the Directors	19 – 22
Whether Executive, Non-Executive or Independent Non-Executive	Profile of the Directors; Corporate Governance Report; Corporate Information; Board and Board Subcommittee attendance tables; Report of the Board of Directors on the State of Affairs of the Company ("Directors' Report")	19 – 22 30 – 53 32, 34 71 – 83
Immediate family and/or material business relationships with other Directors	Not applicable, as no Director has any immediate family and/or material business relationship with other Directors. Directors have submitted declarations in this regard	Not applicable
Names of listed companies in Sri Lanka in which the Director concerned serves as a Director	Annexure to the Directors' Report	81 – 83
Number of Board seats by each Director indicating listed and unlisted companies and whether in an executive or non-executive capacity	Annexure to the Directors' Report	81 – 83
Number and percentage of Board meetings attended during the year	Board meetings attendance table	32
Names of Board subcommittees in which the Director serves as Chairman or member	Profile of the Directors; Board Subcommittee attendance table; Reports of the respective subcommittees	19 – 22 34 54 – 67
Committee meetings attended during the year	Board Subcommittee attendance table	34

A.11 Appraisal of Chief Executive Officer (CEO)

The Bank has a formal process for the evaluation of the CEO. Pursuant to the final approval of the budget for the year by the Board, at the beginning of the year the Board Human Resources and Remuneration Committee discusses with the CEO and agree on performance objectives and targets (also referred to as Key Performance Indicators or KPIs) aligned with the business strategy of the Bank.

The Board evaluates the performance of the CEO upon the finalisation of the Audited Financial Statements for the financial year taking into account the targets set, the operating environment and the reasons in cases where the performance has been above or below agreed targets.

B.1 Directors' Remuneration Procedure

B.1.1 to B.1.5 Remuneration Committee and the Remuneration Policy

The Board has established a Board Human Resources and Remuneration Committee (BHRRC) to make recommendations to the Board within agreed terms of reference, namely, the Remuneration Policy which is the Bank's framework for determining the remuneration and benefits to the Directors, Key Management Personnel (KMPs), other management members and employees. The BHRRC is comprised exclusively of Non-Executive Directors, a majority of whom hold independent status including the Chairman, Mr S P S Ranatunga. Details relating to the composition of the BHRRC, its scope, responsibilities, the Bank's policy on remuneration, etc., are disclosed in the Report of the BHRRC on page 58 of the Annual Report.

Based on the recommendation of the Committee, Directors collectively decide on the remuneration and benefits for the CEO as well as the professional fees and benefits (if any) to the Non-Executive Directors. The Committee seeks independent advice to determine revisions and compensation packages when deemed necessary to discharge these responsibilities. No Director or KMP is involved in deciding his or her remuneration.

B.2 Level and make-up of Directors' remuneration

The levels of remuneration of both Executive and Non-Executive Directors are determined by the BHRRC. The Committee and the Board are mindful that remuneration offered should be adequate to attract and retain the services of the Directors. The Bank looks at market remuneration levels of Directors, CEOs and key positions in determining the remuneration to those positions in the Bank and also when new appointments are being considered to key positions.

The CEO's (Executive Director) remuneration and benefits are aligned with the actual performance and market compensation levels. They are subject to periodic review (at least annually) and recommendation of the BHRRC and approval of the Board.

All Non-Executive Directors are paid a monthly professional fee and fee for attending Board subcommittee meetings which reflect their time commitment and responsibilities of their role as members of the Board and Board subcommittees. Non-Executive Directors are not eligible for performance-based remuneration schemes and other performance-related bonuses or share options.

Any other payments for the purpose of sign on, retention or termination of staff members which are not set out in the employment contracts is reviewed by the BHRRC and approved by the Board of Directors before being agreed upon.

B.3 Disclosure of remuneration

The Bank's policy on remuneration is disclosed in the Report of the BHRRC on page 56 of the Annual Report which also includes the names of the Directors who are members of the Committee.

Aggregate remuneration paid during the year to the Key Management Personnel including the Executive Director (CEO) and to Non-Executive Directors is disclosed in the table reporting compliance with Banking Act Directions [Ref. Section 3 (8) (ii) (f) on page 53].

C.1 Constructive use of Annual General Meeting and Conduct of General Meetings

C.1.4 Notice of Annual General Meeting

The Annual General Meeting (AGM) is the principal forum in which the Directors account to the shareholders for their stewardship of the Company. Requisite notice together with the Form of Proxy and a copy of the Annual Report complying with the provisions of the Companies Act No. 07 of 2007, CSE Rules and the Articles of Association of the Bank are dispatched to all shareholders not less than fifteen working days prior to the date of the AGM.

C.1.1 to C.1.3 Proxy votes

The Form of Proxy provides instructions to shareholders as to the completion of the form and voting procedures at the general meetings. This provides an opportunity to all shareholders to attend the meetings in person or by proxy and obtain clarifications on any issues of concern relating to the Bank and an opportunity to raise issues before voting on matters submitted for the shareholders' approval.

At the last AGM of the Bank which was held on 31 March 2017, approximately 58% exercised their votes by attending in person or by proxy. Proxy votes are separately counted and declared at the outset of the AGM and also recorded in the Minutes. An automated process is in place to count the two way proxies received.

All members of the Board of Directors are present at the general meetings unless the Directors request to be excused due to unavoidable circumstances and the shareholders are informed of the same at the commencement of the meeting. Based on the subject matter of the question raised, the Chairman or the Director/CEO or the Director chairing the Board subcommittee which deals with the particular subject responds to the questions.

A separate resolution is proposed for each item of business providing the shareholders the opportunity to consider and decide each item separately.

C.2 Communication with shareholders

C.2.1 to C.2.7 Communication channels and shareholder communication policy

The key channel of disseminating timely information to the shareholders is the announcements via the Colombo Stock Exchange whilst the Annual Report and the general meetings can be considered as the primary modes of communication of the Bank with the shareholders.

A Board approved Shareholder Communication Policy is in place and published in the Bank's corporate website www.seylan.lk. The objective of the Policy is to enhance long-term shareholder relationship through regular communication. Shareholders may at any time direct queries, request for publicly available information relating to the Bank, provide comments and suggestions to the Directors or management through the Company Secretary of the Bank. The Company Secretary ensures that all shareholder queries/requests relating to their shareholding are duly addressed and responded to effectively within a reasonable time frame. Any correspondence which requires the management's or Board's attention is referred to them accordingly.

The Bank also complies with the Rules of the Colombo Stock Exchange (CSE) in promptly disseminating corporate announcements to the CSE which are published on the CSE website, www.cse.lk. The Board reviews and approves the contents of major disclosure documents, including the Annual Report and Interim (quarterly) financial reports prior to updating them on the Bank's website and the CSE's website.

C.3 Disclosure of material/major transactions to shareholders

C.3 and C.3.1 Material transactions and major transactions with related parties

There were neither material transactions which would have materially altered the Bank's or Group's net asset base nor any "major related party transactions" during the year 2017 warranting disclosure in the Annual Report. Related party transactions are disclosed in Note 50 to the Financial Statements.

D.1 Financial reporting

D.1.1 Board's responsibility for proper disclosure of interim and other price sensitive and statutorily mandated reports to regulators

The Bank's financial reports which were published were prepared and presented in conformity with the Sri Lanka Accounting Standards whilst complying with the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended) and also the reporting requirements of the Central Bank of Sri Lanka and the Colombo Stock Exchange (as applicable) to give a true and fair view of the financial position of the Bank. The financial reports are reviewed by the Board Audit Committee and approved by the Board prior to releasing them to the Colombo Stock Exchange and published.

D.1.2 Disclosures in the Directors' report

The Report of the Board of Directors on the State of Affairs of the Company contains declarations of Directors amongst others; that the Company has not engaged in any activities which contravenes laws and regulations; declaration of all material interests in contracts; statements relating to equitable treatment of shareholders that the Company is a going concern and the effectiveness of internal controls.

D.1.3 to D.1.7 Disclosures as required by the code are included in this Annual Report:

Principle	Disclosure required and section of the Annual Report/Comment	Page/s
D.1.3	Statements of responsibilities for preparation and presentation of Financial Statements <ul style="list-style-type: none"> • Directors' responsibility for financial reporting • Report of the Auditors • Directors' Statement on internal control 	203 206 68
D.1.4	Management Discussion and Analysis Report <ul style="list-style-type: none"> • Our Value Creation Story 	129
D.1.5	Confirmation that the business is a going concern <ul style="list-style-type: none"> • Report of the Directors on the state of affairs of the Company. • Directors' Statement of Responsibility on Financial Statements published in this Annual Report. • Note 3 to the Financial Statements 	71 203 218
D.1.6	Net assets value against shareholders' funds <ul style="list-style-type: none"> • The net assets value was maintained throughout the year and therefore, the requirement to take remedial action by summoning an Extraordinary General Meeting did not arise. The Financial Statements explain the movement of net assets during the year. 	Not applicable

Principle	Disclosure required and section of the Annual Report/Comment	Page/s
D.1.7	Related Party Transactions <ul style="list-style-type: none"> • Note 50 to the Financial Statements • A Board approved Policy and Process on Related Party Transactions and Conflicts of Interest document is in place which adequately covers the Bank's policy and procedures on the same. 	288

D.2 Internal control

D.2.1 Effectiveness of risk management and internal controls

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. The Board has delegated this responsibility to the Board Integrated Risk Management Committee and the Chief Risk Officer who reports to the Committee. The Committee reviews and ensures that the management implements the policies adopted by the Board by establishing an effective and complete system of internal control necessary for the same. Board approved policies on risk management are in place and were reviewed during the year.

D.2.2 Internal audit function

A fully-fledged Internal Audit Department is functional and is governed by the Internal Audit Charter. The Head of Internal Audit Reports to the Board Audit Committee. The Committee reviews internal control issues and risk management measures identified by the Internal Audit Division and it further evaluates the adequacy and effectiveness of same. Issues that require the attention of the Board are conveyed to the Board by the Chairperson of the Committee and the Board further discusses them and decides on appropriate actions.

The Statement on the effectiveness of the Bank's internal control mechanism is reviewed and recommended by the Board Audit Committee and a Directors' Statement on Internal Control is published in the Annual Report. The Bank also received an assurance report from the External Auditors in this regard pursuant to the independent audit conducted by them in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – "Assurance Report for Banks on Directors' Statement on Internal Control".

D.3 Board Audit Committee (BAC)

D.3.1 to D.3.4 Composition of the BAC

During the year under review, the Board Audit Committee which was established by the Board with approved Terms of Reference (last reviewed and revised during 2017) comprised four Non-Executive Directors of which three were Independent Directors and was chaired by Independent Director/Senior Director, Ms M C Pietersz. The Report of the Board Audit Committee on page 54 provides information relating to the composition, scope and responsibilities of the Committee and a summary of activities carried out by the Committee complying with the requirements of the Code and the Banking Act Direction No. 11 of 2007 on Corporate Governance.

D.4 Code of Business Conduct and Ethics

Two separate Board approved Codes are in place for the Directors and for the employees of the Bank, namely;

- The Code of Business Conduct and Ethics for Directors; and
- The Code of Conduct as well as the Code of Ethics for the Bank's employees including the Senior Management and Key Management Personnel.

The Code of Business Conduct and Ethics for Directors of Seylan Bank covers principles and guidelines which the Directors are expected to abide by to protect the business interests of the Bank, to maintain the Bank's reputation and foster compliance with applicable legal and regulatory obligations. The annual declaration to the effect that the Directors are aware and will abide by the Code of Business Conduct and Ethics for Directors was signed by all Directors during the year. The adoption of the Code of Conduct and the Code of Ethics for the Bank's employees has been communicated to them via email and the codes have been uploaded on the Bank's intranet for perusal and due adherence by all staff.

An affirmative statement by the Chairman that there has not been any violation of any of the provisions of the Code has been provided in the "Letter from the Chairman" on page 11 of this Annual Report.

D.5.1 Disclosure of corporate governance practices

This Corporate Governance Report published in the Annual Report sets out the manner and extent to which the Bank has complied with the principles and provisions of the Code.

E.1 Institutional investors

As at 31 December, 2017, the Bank's ordinary voting shareholder base consisted of 9,047 shareholders of which 291 shareholders with a total percentage of approximately 82% were held by institutional shareholders. These shareholders make effective use of their voting rights at the general meetings of shareholders. The Annual General Meeting is the forum utilised by the Board as well as the shareholders of the Bank to have an effective dialogue with one another.

E.2 Evaluation of governance disclosures

The institutional investors have access to substantial information relating to the Bank including the the Board structure and composition, profiles of the Directors, Financial Statements, other investor information, etc., which are published in the Bank's Annual Reports, Interim Reports as well as on its corporate website www.seylan.lk. Institutional shareholders are at liberty to give due weight to all relevant factors when voting on resolutions relating to governance arrangements, such as the election/re-election of Directors; appointment/re-appointment of Auditors, etc.

F.1 Investing/divesting decisions by individual shareholders

As at 31 December 2017, the shareholding distribution of the Bank reflected an increase in the percentage of holding of individual ordinary voting shareholders (8,756 shareholders) to 17.89% from the previous year's percentage of 13.21% (8,930 shareholders). These shareholders make effective use of their voting rights at the general meetings of shareholders. Shareholders are advised to carry out adequate analysis on their own or by seeking independent professional advice in investing and divesting decisions, e.g. when deciding on trading in shares on the Trading Floor of the Exchange; when offers for additional capital issues (e.g. rights issues) are made by the Bank.

G.1 Principles of sustainability reporting

The Bank has adopted the following principles in sustainability reporting to ensure the maintenance of policies and procedures to develop a sustainable business environment and to make disclosures on sustainability.

This Annual Report provides a detailed report on the Bank's sustainability approach, responsibilities and initiatives during the year on the pages mentioned in the table below. The Board has delegated its responsibility in this respect to the Board Sustainability Committee which functions within the scope of its Terms of Reference approved by the Board. The Executive Sustainability Committee and the Sustainability Manager designated are responsible for implementing the sustainability initiatives and they report the progress to the Committee.

	Page/s	
G.1.1	Principle of Economic Sustainability Governance	156 – 161
G.1.2	Principle of Environmental Governance	196 – 198
G.1.3	Principle of Labour Practices Governance	172 – 183
G.1.4	Principle of Society Governance	190 – 195
G.1.5	Principle of Product Responsibility Governance	162 – 171
G.1.6	Principle of Stakeholder Identification, Engagement and Effective Communication	124 – 125
G.1.7	Sustainability Reporting and Disclosure The Bank's sustainability reporting and disclosure is based on the Global Reporting Initiative (GRI) Guidelines. Please refer pages 156 to 200 for a detailed report and for the Sustainability Assurance Report of the External Auditors on pages 154 to 155	

Compliance with Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended)

In compliance with Section 3 (1) (xvi) of the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) (hereinafter referred to as the Banking Act Directions or CBSL Directions or Banking Act Directions on Corporate Governance) is disclosed in the Report that follows with references to the respective Banking Act Directions. The disclosures cover the following eight sub-sections:

- The Responsibilities of the Board – Section 3 (1) of the Directions
- The Composition of the Board – Section 3 (2) of the Directions
- Fitness and Propriety of Directors – Section 3 (3) of the Directions
- Management Functions delegated by the Board of Directors – Section 3 (4) of the Directions
- Chairman and Chief Executive – Section 3 (5) of the Directions
- Board appointed Committees – Section 3 (6) of the Directions
- Related Party Transactions – Section 3 (7) of the Directions
- Disclosures – Section 3 (8) of the Directions

The regulations, Directions, Determinations and Circulars issued by the Monetary Board of the Central Bank of Sri Lanka under the Banking Act No. 30 of 1988 (as amended) can be referred to by accessing the website of the Central Bank of Sri Lanka www.cbsl.gov.lk.

CBSL direction	Level of compliance
3 (1)	Responsibilities of the Board
3 (1) (i)	<p>Ensuring the safety and soundness of the Bank</p> <p>The Board has taken relevant measures to ensure the safety and stability of the Bank during the year under review including the following:</p>
3 (1) (i) (a)	<p>Strategic objectives and corporate values – With the Strategic Plan 2012-2016 nearing completion in the latter part of 2016, the Board engaged the services of a specialised international consultant for developing and formulating a four-year Strategic Plan for the Bank and after a detailed study of the proposals put forth and detailed discussions held with the management approved the four-year Strategic Plan of the Bank for the period 2017 to 2020 at a meeting held on 31 January 2017. The Strategic Plan and corporate objectives were communicated to the staff by the Director/Chief Executive Officer (CEO). Staff members from different segments of the Bank were invited to the organised forums and sessions to brief, reinforce the importance of achieving the objectives and further to review the progress against the set targets of the Strategic Plan. The Board Strategic Plan Committee which was constituted as a subcommittee of the Board held four meetings during the year and it reviewed the progress and provided the necessary guidance to the Management to drive the Bank's four-year Strategic Plan 2017 to 2020 in order that the Bank achieves the objectives within the set timeliness.</p> <p>The corporate values of the Bank are set out in the Bank's Code of Business Conduct and Ethics for Directors which is annually attested by the Directors, the Code of Conduct and Code of Ethics for Employees and other related Policies and Codes of the Bank which are communicated and made available on the Bank's intranet and also inculcated at training sessions conducted by the Bank.</p>
3 (1) (i) (b) and (c)	<p>Overall risk policies and prudent risk management – The Board has vested this responsibility to the Board Integrated Risk Management Committee which ensures that the Bank's Risk Management Unit headed by the Chief Risk Officer identifies principal risks and with the approval of the Board puts in place policies and guidelines for implementation. The Bank's overall business strategy and the approved budget are aligned with the overall risk appetite and risk assessment of the Bank. The approved risk policies and procedures in place which constitute the overall risk management framework of the Bank were constantly tested and reviewed by the Risk Management Unit and the status reported for the Committee's review.</p>
3 (1) (i) (d)	<p>Communication policy with all stakeholders – The following policies are in place:</p> <ul style="list-style-type: none"> • Stakeholder Engagement Policy – An internal document specifying the lines of authority for communication with different stakeholders/institutions in the ordinary course of its business. • Customer Charter (Customers include depositors and borrowers) – This document which is published in all three languages on the Bank's website www.seylan.lk outlines the Bank's policy on dealing with customers, handling customer complaints, contact information for making complaints to the Bank and also to the Financial Ombudsman. • Shareholder Communication Policy – Accessible on the Bank's website, www.seylan.lk • Communication Policy – An internal document which provides guiding principles for both internal and external communication, mainly corporate information to the media.
3 (1) (i) (e)	<p>Internal control systems and management information systems – The Board Audit Committee assists the Board in reviewing the adequacy and integrity of the Bank's internal control systems and management information systems. The decisions and/or actions taken are submitted for Board's information and/or action as appropriate. Please refer Section 3 (6) (ii) of this report for further information.</p>
3 (1) (i) (f)	<p>Identification of Key Management Personnel (KMPs) – Directors and identified members of the Senior Management are deemed as Key Management Personnel of the Bank who are in a position to influence and exercise control over business activities, operations, audit and risk management. All appointments of KMPs are recommended by the Board Nomination Committee and approved by the Board.</p> <p>KMPs are deemed as "related parties" and therefore, necessary steps are taken to ensure compliance with the relevant Banking Act Directions on related party transactions and provisions of the Sri Lanka Accounting Standard on related party transactions. The Bank's Policy and Process document on Related Party Transactions and Avoidance of Conflicts of Interests and the Codes of Ethics provide necessary principles, guidelines and processes to be followed by KMPs.</p>
3 (1) (i) (g)	<p>Defining of areas of authority and key responsibilities – The key responsibilities of Key Management Personnel are defined in their job responsibilities, whilst the Directors derive their responsibilities from the regulations and directions, mainly, the Banking Act Directions and is documented in the Board approved Corporate Governance Framework. A Board approved document on Authority and Key Responsibilities for the Board of Directors and for the Key Management Personnel is also in place.</p>

CBSL direction	Level of compliance
3 (1) (i) (h)	<p>Oversight of the affairs of the Bank by Key Management Personnel – Policies and decisions of the Board and Board subcommittees are communicated to the Key Management Personnel by minute extracts requiring appropriate follow-up actions.</p> <p>Reports and proposals from Key Management Personnel including those pursuant to discussions and decisions at corporate management meetings or the related management committee meetings headed by the CEO are submitted to the Board and Board subcommittees for information, review, and/or approval. These processes ensure appropriate oversight of the Board on the affairs of the Bank carried out by Key Management Personnel. The CEO and Key Management Personnel heading different areas of authority are met at meetings of the Board subcommittees as well as at Board meetings which provide an opportunity for the Board to discuss the progress and the extent to which policies, corporate strategies and objectives of the Bank are implemented.</p>
3 (1) (i) (i)	<p>Effectiveness of the Board's own governance practices – The Board carried out a self-evaluation on an annual basis. The process includes an assessment of the effectiveness of the governance practices including the succession planning, management of conflicts of interest and the determination of weaknesses. The self-evaluated reports were collated and summarised by the Company Secretary and submitted to the Board Governance and Compliance Committee which has been vested with the said responsibility.</p>
3 (1) (i) (j)	<p>Succession plan for Key Management Personnel – The Bank has in place a Succession Plan for Key Management Personnel including development plans for the successors which were periodically reviewed by the Board Nomination Committee and was last reviewed and approved in November 2017.</p>
3 (1) (i) (k)	<p>Regular meetings with Key Management Personnel – Please refer sections 3 (1) (i) (h) which also includes statements relating to status of compliance with this section.</p>
3 (1) (i) (l)	<p>Understanding of the regulatory environment – The Board is updated of the changes in the regulatory environment by the CEO and relevant Key Management Personnel at the Board Subcommittee level and at Board level which discusses and/or endorses the steps taken to comply with such changes as appropriate. The Board ensures that the Bank maintains an effective dialogue and relationship with the regulators.</p>
3 (1) (i) (m)	<p>Hiring of External Auditors – A Board-approved policy for hiring and engagement of External Auditors is in place. The Board Audit Committee is vested with the responsibility of exercising due diligence and oversight in making necessary recommendations for hiring of the External Auditors.</p>
3 (1) (ii)	<p>Appointment of Chairman and Chief Executive Officer – Non-Executive Director, Mr W M R S Dias was appointed as the Chairman of the Bank with effect from 9 May 2016. Mr K P Ariyaratne functions as the Director/Chief Executive Officer of the Bank. The functions and responsibilities of the Chairman and the Chief Executive Officer are defined and documented in the Corporate Governance Framework of the Bank. Please refer Section 3 (5) of this Report for further update.</p>
3 (1) (iii)	<p>Frequency of Board meetings and participation of Directors – Regular meetings were held monthly with special meetings held as and when required. Twelve regular Board meetings were held monthly and seven special Board meetings were held at different times of the year to consider important and/or urgent issues.</p> <p>Quorum – The quorum at Board meetings is minimum five members or above 50% of the number on the Board whichever is higher and with majority Non-Executive Directors. The quorum required in this manner was maintained from commencement to the conclusion of proceedings of Board meetings held during the year.</p> <p>Directors actively participate and share their views and contribute at Board proceedings. Resolutions by circulation were restricted to matters of a routine and/or urgent nature and such resolutions were ratified at the Board meetings that ensued. The details of the meetings held and the Directors attendance are disclosed on page 32.</p>
3 (1) (iv)	<p>Agenda – There is a formal schedule of matters that are included in the Agenda of regular Board meetings held monthly which also includes matters which require the approval of the Board where it is not within the delegated authority of the management and/or the Board subcommittees. Since adequate notice of the next meeting is provided, Directors have the opportunity to include matters and/or proposals to be considered at Board meetings. Further, at the Board meetings, the Directors propose and collectively agree on matters to be included in the Agenda of Board meetings or Board Subcommittee meetings.</p> <p>Timely and adequate information is provided by the management to the Board prior to the regular Board meetings. Members of the management also make themselves available on call to respond to queries raised at Board meetings and to provide additional information when required by the Board members.</p>
3 (1) (v)	<p>Notice of Meeting – Notices for the regular monthly meetings of the Board of Directors were emailed by the Company Secretary to the Directors as well as to the management at least three weeks prior to the meeting whilst the agenda and the connected papers/reports were circulated to the Directors seven days prior to such regular monthly meetings.</p>

CBSL direction	Level of compliance
3 (1) (vi)	Attendance – At every Board meeting, the Company Secretary apprises the Directors the record of their attendance at Board meetings held in the period of 12 months immediately preceding the regular Board meeting. During the year, all Directors attended more than two-thirds of the meetings held over a 12 months period. No Director was absent from three consecutive meetings.
3 (1) (vii)	Company Secretary – Mrs N N Najumudeen, who is a qualified Chartered Secretary, is the Bank's Company Secretary appointed by the Board and is not an employee of any other organisation or institution (Section 43 of the Banking Act). The Board approved job description of the Company Secretary adequately covers the responsibilities of a Company/Board Secretary set out in the relevant regulations and codes. The Company Secretary reports to the Board and to the Board subcommittees on matters relevant to the proper functioning of the Board and the Board subcommittees. The Company Secretary is also responsible for the administration and day-to-day operations of the Company Secretariat including shareholder communications, communications with the regulatory authorities such as the Colombo Stock Exchange, the Securities and Exchange Commission of Sri Lanka, the Registrar of Companies and the Central Bank of Sri Lanka.
3 (1) (viii)	Access to the advice and services of the Company Secretary – The Directors have access to the advice and services of the Company Secretary in ensuring that Board responsibilities, procedures and applicable rules and regulations are followed.
3 (1) (ix); 3 (1) (x)	Minutes of Board Meetings – Minutes of Board meetings are recorded by the Company Secretary in sufficient detail to enable a proper assessment to be made of the extent of deliberations and any decisions taken at the meetings. Minutes of Board meetings are prepared and circulated to the Directors to enable them to peruse same and confirm/clarify/rectify and record any discrepancy at the Board meeting that follows. Minutes are maintained by the Company Secretary for inspection of any Director and required extracts are also issued on reasonable notice.
3 (1) (xi)	Independent professional advice – Directors are entitled to seek independent professional advice at the expense of the Bank in furtherance of their duties and contribution in the interest of the Bank. A Board approved procedure is in place for this purpose.
3 (1) (xii)	Avoidance of Conflicts of Interest – If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter is dealt with at a Board meeting. The Company Secretary and/or the Chairman/Director/s concerned draw the attention of the Board to the Directors' interest or related party interest prior to any proposals or matters that are to be discussed and decided upon at the Board meetings. Directors leave the Boardroom to abstain from participating in such deliberations and from voting on any such resolution.
3 (1) (xiii)	Schedule of matters reserved for Board's decision – Please refer 3 (i) (iv) on page 43.
3 (1) (xiv)	Bank's ability/inability to meet its obligations on payments – The Board has adopted a Contingency Funding Plan which addresses the procedures to be followed by the Bank and keeping the Director Bank Supervision informed in a liquidity crisis situation, i.e., if it considers that it is, or is unlikely to be able to meet its obligations or is about to suspend payments due to depositors and other creditors. The Plan was last reviewed and approved in December 2017. The Bank however, did not face a situation of being unable to meet its obligations on payments during the year.
3 (1) (xv)	Capitalisation of the Bank – The Board has ensured that the Bank duly complies with Capital Adequacy requirements as required by the Monetary Board. The revised Capital Augmentation Plan for 2017/2020 which was prepared based on Basel III and taking into consideration the Bank's Strategic Plan 2017/2020, projected growth patterns, assumption on any debenture issues, dividend payout, etc., was approved by the Board in April 2017. The Bank's total capital ratio was in compliance with the prudential limit as at 31 December 2017 confirming that it was adequately capitalised.
3 (1) (xvi)	Annual Corporate Governance Report – This Report serves to meet the requirement of this provision, which requires the publishing of the Annual Corporate Governance Report in compliance with Direction 3 of these Directions.
3 (1) (xvii)	Scheme of Self-assessment – Directors are required to submit their self-assessment reports annually which was duly complied in respect of the year 2017. The records are shared with the Directors at a Board meeting held in January 2018 and filed of record by the Company Secretary.

3 (2) The Board's Composition

- 3 (2) (i) **Board of Directors as at 31 December 2017** – During the year 2017, in compliance with this section of the Directions the number of Directors on the Board was not less than seven and not more than 13 throughout the year. The Board comprised 11 members as at 31 December 2017 as follows:
1. Mr W M R S Dias (Non-Executive Director/Chairman)
 2. Mr I C Nanayakkara (Non-Executive Director/Deputy Chairman)
 3. Ms M C Pietersz (Independent Non-Executive Director/Senior Director)
 4. Mr K P Ariyaratne [Director/Chief Executive Officer (CEO)]

CBSL direction	Level of compliance
	<p>5. Rear Admiral B A J G Peiris (Independent Non-Executive Director) – (since retired on 8 January 2018)</p> <p>6. Mr S P S Ranatunga (Independent Non-Executive Director)</p> <p>7. Mr W D K Jayawardena (Non-Executive Director)</p> <p>8. Mr P L S K Perera (Independent Non-Executive Director)</p> <p>9. Mr S V Corea (Non-Executive Director)</p> <p>10. Mr A S Wijesinha (Independent Non-Executive Director)</p> <p>11. Mrs S K Salgado (Independent Non-Executive Director)</p>
3 (2) (ii)	<p>Period of service of a Director other than a Director who holds the position of CEO – Being appointed on or after 8 January 2009, the tenure of directorship of the above named Non-Executive Directors did not exceed nine years as at 31 December 2017.</p> <p>Length of the tenure of the ten Non-Executive Directors on the Board as at 31 December 2017 was as follows:</p> <p>Service period of the Board of Directors</p> <p>(Years)</p> <p>Note: On 8 January 2018, Independent Non-Executive Director, Rear Admiral B A J G Peiris retired from the Board in terms of this direction, having served a period of nine years.</p>
3 (2) (iii)	<p>Appointment of Executive Directors – Of the 11 Directors on the Board, Director/CEO, Mr K P Ariyaratne was the only Executive Director thus complying with this direction, i.e., where the number of Executive Directors had not exceeded one third of the number of Directors on the Board.</p>
3 (2) (iv)	<p>Independent Directors – The number of Independent Non-Executive Directors throughout the year 2017 was six, thus complying with this direction, i.e., exceeding the minimum requirement of three Independent Non-Executive Directors or one third of the total number of Directors on the Board whichever is higher.</p> <p>The Board determines the independent and non-independent status of the Non-Executive Directors based on the declarations submitted by those Directors in accordance with the criteria defined in the Banking Act Direction No. 3 (2) (iv) and Section 7.10.4 of the Rules of the Colombo Stock Exchange. A declaration to this effect is obtained from Non-Executive Directors at the time of their appointment and thereafter annually.</p>
3 (2) (v)	<p>Alternate Directors – No alternate directors were appointed during the year 2017.</p>
3 (2) (vi)	<p>Non-Executive Directors – The Non-Executive Directors on the Board included personnel with extensive experience, skills and proven track records, in the field of banking, finance, law, insurance, marketing, economics, research, strategic communications, security and intelligence and other acceptable fields. Their expertise brought in independent judgement on issues relating to strategy, performance and resources. The profiles of the Directors are published in the Bank's Annual Report on pages 19 to 22.</p>
3 (2) (vii)	<p>Non-Executive Directors composition at Board meetings – Meetings of the Board held during the year were duly constituted with the required quorum and more than fifty percent of the quorum was represented by Non-Executive Directors.</p>
3 (2) (viii)	<p>Identification of status of Directors in corporate communications – The Directors were identified as Executive; Non-Executive and Independent (also referred to as "Independent Non-Executive") in all corporate communications including the Annual Report and in this Corporate Governance Report. Persons who held identified positions, e.g., Chairman, Deputy Chairman and CEO were disclosed with such designations.</p>
3 (2) (ix)	<p>Procedure for appointment of Directors – A Board approved procedure is in place for the appointment of new Directors to the Board which acts as a guideline to the Board when appointments to the Board are considered. The Board Nomination Committee is vested with the responsibility of identifying new Directors and/or considering the suitability of nominee Directors to the Board.</p>
3 (2) (x)	<p>Election of Directors appointed to fill casual vacancy on the Board – Independent Non-Executive Directors, Mr A S Wijesinha and Mrs S K Salgado who were appointed during the year 2016 to fill the casual vacancies on the Board were proposed for election and elected by the shareholders at the Annual General Meeting held on 31 March 2017.</p>

CBSL direction	Level of compliance
3 (2) (xi)	Resignation/removal/cessation of Directorships – Upon the Board accepting and recording the resignation/removal/cessation of Directorships it is informed to the regulatory authorities and shareholders (via announcements made to the Colombo Stock Exchange). There were no resignation/removal/cessation of Directorships during the year 2017.
3 (2) (xii)	Appointments in any other bank – No Director and no employee of the Bank has been appointed, elected or nominated as a Director of another bank. No other bank is a subsidiary or an associate of Seylan Bank PLC.
3 (3)	Criteria to assess the fitness and propriety of Directors <p>All appointments to the Board were made after obtaining approval of the Director, Bank Supervision, Central Bank of Sri Lanka in terms of Section 42 of the Banking Act No. 30 of 1988 (as amended). Declarations and Affidavits in terms of the said Section 42 were obtained from the persons nominated by the Board and forwarded to the Director, Bank Supervision for this purpose. Declarations and Affidavits of the continuing Directors were also forwarded to the Director, Bank Supervision prior to the Annual General Meeting in 2017 for perusal and approval.</p> <p>The declarations submitted to and accepted by the Director, Bank Supervision confirm that the Directors meet the criteria of fitness and propriety as per Section 42 of the Banking Act No. 30 of 1988 (as amended) and its Directions.</p>
3 (3) (i)	Retirement age of Directors – The related section of the Banking Act Direction stipulates that a person who is over 70 years of age shall not serve as a Director. No Directors on the Board exceeded the age of 70 during the year.
3 (3) (ii) (amended by Direction No. 3 of 2013)	Directorships in other companies/institutions – During the year 2017, no Director of the Bank held Directorships in more than 20 companies/entities/institutions inclusive of subsidiaries of the Bank. Please refer Annexure to the Report of the Board of Directors for details (pages 81 to 83).
3 (4)	Management functions delegated by the Board of Directors
3 (4) (i); 3 (4) (ii); 3 (4) (iii)	Board delegation arrangements in place – The Board is empowered by the Articles of Association to delegate any of its powers to the Board subcommittees consisting of such member or members as the Board thinks fit, to the CEO and/or the Key Management Personnel. <p>The Board has delegated matters pertaining to the affairs of the Bank to the Board subcommittees within the scope of the respective Board approved Terms of Reference. The CEO and other Key Management Personnel work within the Board approved delegated authority limits and the scope of their job descriptions.</p> <p>New delegation processes or revisions to the existing delegation processes as proposed by the Director/CEO and the respective Key Management Personnel taking into account business needs and structural changes together with the recommendation of the subcommittee overlooking the subject matter (where applicable) are considered and approved/decided by the Board. The Board ensures that the delegation processes do not hinder or reduce the Board's overall powers to effectively discharge its functions and ensures that they remain relevant to the needs of the Bank.</p>
3 (5)	Chairman and the Chief Executive Officer
3 (5) (i)	Chairman and Chief Executive Officer – During the year 2017, Non-Executive Director, Mr W M R S Dias was the Chairman and Mr K P Ariyaratne was the Chief Executive Officer (CEO) of the Bank. The Chairman's role is to provide leadership to the Board, ensure that the Board discusses and collectively decides on key issues and that it discharges its responsibilities effectively. The CEO is responsible for the overall management of the operations and business of the Bank. The division of responsibilities is pronounced in the Corporate Governance Framework of the Bank.
3 (5) (ii)	Independent status of the Chairman – Mr W M R S Dias is a Non-Executive Director. Therefore, the Board has appointed Independent Director, Ms M C Pietersz as the Senior Director with effect from the date of the Chairman's appointment on 9 May 2016. The Terms of Reference for the Senior Director was reviewed and approved by the Board during the year.
3 (5) (iii)	Disclosure of the identity and relationship of the Chairman and the CEO and other Board members – The declarations submitted by the Directors upon appointment and annually by the continuing Directors as well as the declaration submitted by the CEO confirm that no relationship of any nature (including financial, business, family or other material/relevant relationships) existed between the Chairman and the CEO and also amongst the members on the Board (including the Chairman), during the year 2017 other than in respect of the following: <ul style="list-style-type: none"> • Directors, Messrs I C Nanayakkara and W D K Jayawardena held common Directorships and related party interests in companies within the LOLC Group and the Browns Group and they represented the Bank's material shareholders LOLC Investments Limited and Brown & Company PLC.

CBSL direction	Level of compliance
	<ul style="list-style-type: none"> Directors, Messrs W M R S Dias and S V Corea were nominated to the Board by the Bank's material shareholder, Sri Lanka Insurance Corporation Limited.
3 (5) (iv) to 3 (5) (x)	<p>Chairman's Role – The Chairman's role can be described as follows:</p> <ul style="list-style-type: none"> Provides leadership to the Board and ensures that the Board effectively discharges its responsibilities and that all key issues are discussed by the Board in a timely manner. Ensures that the agenda for the Board meetings, preparation of which is delegated to the Company Secretary, takes into account any matters proposed by the other Directors for inclusion in the agenda and that Board papers covering adequate information is circulated to the Directors at least seven days prior to the meeting. Ensures that Directors, especially new Directors on the Board are duly briefed on issues arising at Board meetings. Encourages all Directors to make an active contribution and ensures that the deliberations and decisions of the Board are in the best interest of the Bank. Non-Executive Directors chairs and/or are members of the Board subcommittees and thereby play an active role in executing the responsibilities delegated by the Board to the committees in the best interests of the Bank. Chairman, Mr W M R S Dias holds a Directorship in a non-executive capacity and did not engage in direct supervision of the Key Management Personnel or any other executive duties. Ensures that effective communication with shareholders is maintained and that the views of shareholders are communicated to the Board. The general meetings of the Bank are forums utilised by the Board as well as the shareholders of the Bank to have an effective dialogue with one another. The Bank publishes its corporate announcements, Financials Statements, related documents of the issued public listed debentures and the daily trading prices of its shares on its corporate website, www.seylan.lk. The Bank has also published its Shareholder Communication Policy on its corporate website for the information of the shareholders.
3 (5) (xi)	<p>Chief Executive Officer – Mr K P Ariyaratne, Director/CEO of the Bank heads the Senior Management Team of the Bank and reports to the Board of Directors as well as to the Board subcommittees. His main function and responsibility is the overall management of the operations and business of the Bank in line with its strategic objectives as delegated by the Board.</p>

3 (6) Board Appointed Committees

3 (6) (i)	<p>Subcommittees appointed by the Board – The Bank has established four Board subcommittees as required in these directions, namely the Board Audit Committee, the Board Human Resources and Remuneration Committee, the Board Nomination Committee and the Board Integrated Risk Management Committee.</p> <p>The Bank has also established six other Board subcommittees, namely the Credit Committee, Sustainability Committee, Marketing and Product Development Committee, Governance and Compliance Committee, the Related Party Transactions Review Committee and the Strategic Plan Committee.</p> <p>The Board appointed subcommittees function within the Board approved Terms of Reference.</p> <p>Company Secretary, Mrs N N Najumudeen functioned as the Secretary to each of these committees during the year. Minutes of the meeting proceedings and matters arising from the minutes as well as papers/ reports that required Board's attention and/or decision were circulated to the Board by the Secretary.</p> <p>The Reports of the Board Subcommittees as reviewed and approved by the Board of Directors are published in the Annual Report (pages 54 to 67).</p>
3 (6) (ii)	<p>Board Audit Committee</p>
3 (6) (ii) (a)	<p>Members and Chairperson of the Board Audit Committee (BAC) – Ms M C Pietersz (BSc, MBA, ACA, FCA) is an Independent Non-Executive Director. She was appointed to the BAC as its Chairperson with effect from 27 September 2013. Ms Pietersz counts over 25 years senior level experience in finance, banking, accounting and audit.</p> <p>The BAC comprised four Non-Executive Directors during the year 2017 three of whom were independent, namely, Ms M C Pietersz, Mr S P S Ranatunga and Mr P L S K Perera. The fourth member, Mr W D K Jayawardena is a Non-Independent Non-Executive Director.</p>
3 (6) (ii) (b)	
3 (6) (ii) (c)	<p>BAC's role with regard to External Auditors – In line with its Terms of Reference, the BAC has reviewed and/or made relevant recommendations to the Board. Matters reviewed by the BAC, during the year, included the following:</p> <ul style="list-style-type: none"> The re-appointment of Messrs KPMG, Chartered Accountants as the Bank's External Auditors for audit services in compliance with the relevant regulations and guidelines. Messrs KPMG were re-appointed as the Auditors for the financial year 2017 by the shareholders at the Annual General Meeting held on 31 March 2017. The implementation of guidelines issued from time to time by the Central Bank of Sri Lanka.
3 (6) (ii) (d)	

CBSL direction	Level of compliance
	<ul style="list-style-type: none"> • The application of relevant accounting standards, including the requirements of the Sri Lanka Financial Reporting Standards (SLFRS/LKAS) complying with the IAS and the IFRS in all material respects. The SLFRS/IFRS 9 which is effective 2018 was a key agenda at the Board Audit Committee (BAC) meetings during the year where detailed presentations were made by the Management, the External Auditors and the Consultants which were discussed in-depth by the Committee. • The incumbent Audit Partner was engaged from the financial year 2014 as required by the five year rotation policy. He was not engaged in the audit prior to his current engagement. • Representation submitted by the External Auditors stating their independence and the objectivity and effectiveness of the audit processes in accordance with applicable standards and best practices.
3 (6) (ii) (e)	<p>Non-audit Services – The BAC reviewed the non-audit services provided by the External Auditors and was of the view that such services were not within the category of services identified as restricted under the guidelines issued by the Central Bank of Sri Lanka for External Auditors relating to their statutory duties in terms of Section 39 of Banking Act No. 30 of 1988 and as amended by Banking Act No. 33 of 1995. A Board approved Policy relating to the engagement of non-audit services is in place which was reviewed and approved during the year 2017.</p>
3 (6) (ii) (f)	<p>Scope of External Audit – The BAC discussed with the External Auditors, the nature and the scope of audit in respect of the financial year, 2017 at a meeting held with the Auditors in the last quarter of 2017. The BAC shared their understanding of the management’s internal controls over financial reporting; the preparation of Financial Statements in accordance with the relevant accounting principles and reporting obligations and compliance with the Banking Act Directions on Corporate Governance. The audit of the Bank’s subsidiary is also carried out by the same External Auditor and therefore, there was no requirement for coordination with more than one audit firm.</p>
3 (6) (ii) (g)	<p>Review of the Bank’s financial information – Prior to submitting to the Board’s review and approval, the BAC reviewed/commented/recommended as appropriate on the Bank’s financial information and reports which were submitted by the Chief Financial Officer and ensured the relevance of the Financial Statements prepared for disclosure and published in the Bank’s Annual Report and in the quarterly Financial Statements and Reports. The BAC also reviewed the Audited Interim Financial Statements for the half year ended 30 June 2017 before they were submitted for Board’s review and approval. The draft quarterly Financial Statements were reviewed by the Internal Audit and any comments or recommendations made by them were taken into consideration and/or incorporated as appropriate, before they were submitted to the BAC by the Chief Financial Officer.</p>
3 (6) (ii) (h)	<p>Meeting with the External Auditors – The BAC met with the External Auditors without the presence of the management and the Director/CEO twice during the year and discussed issues, management responses arising from the interim and final audits.</p> <p>The External Auditors were also invited to meetings of the BAC to present and highlight key audit findings of the 2016 year-end audit and to present the Audit Plan of the 2017 year-end audit. The BAC ensures that there would be no limitation of scope or incidents that could have a negative impact on the effectiveness of the external audit.</p>
3 (6) (ii) (i)	<p>Management Letter of the External Auditors – The BAC reviewed the Management Letter in respect of the audit conducted for the financial year ended 31 December 2016 and the action agreed to by the management and/or their responses thereto. The BAC also reviewed the External Auditors findings and observations on the Interim Audit of the six months ended 30 June 2017 and issued appropriate recommendations and guidance to ensure that issues were duly addressed by the Management.</p>
3 (6) (ii) (j) I and 3 (6) (ii) (j) VI	<p>Internal audit scope and functions – The Bank has in place an internal audit charter which was reviewed and approved during the year 2017. The BAC reviewed the adequacy of the internal audit function and ensured that it conformed to the principles of the Internal Audit Charter which defines the scope, functions, authority, responsibility, adjudication, external relationship management and ethics that assist and direct/guide the Internal Audit Department (IAD) to discharge its functions effectively. The BAC has ensured that the internal audit function was independent of the activities it audits and that it was performed with impartiality, proficiency and due professional care.</p>
3 (6) (ii) (j) II	<p>Internal audit plan/programme – The IAD carried out its responsibilities in line with the approved audit plan of the internal audit for the year 2017 which was approved in advance in the last quarter of the year 2016. The IAD reported on the audits carried out and also updated the status/extent of resolution of findings of the audits carried out to the BAC. The BAC reviewed and issued appropriate recommendations deemed appropriate and ensured that the relevant line management took steps to address/rectify/resolve the audit findings which were outstanding. The Internal Audit Plan/Programme in respect of the year 2018 was approved by the BAC at a meeting held in the last quarter of 2017.</p>
3 (6) (ii) (j) III	<p>Appraisals/assessments of performance of Senior Staff of the internal audit – The BAC noted the appraisals/assessment of performance of the senior staff of the Internal Audit Department. The KPIs for 2017 of the Head of Internal Audit was noted and agreed by the BAC at a meeting held in the first quarter of 2017 and an evaluation/appraisal of the Head of Internal Audit’s performance during the year 2017 was carried out by the BAC at a meeting held in January 2018.</p>

CBSL direction	Level of compliance
3 (6) (ii) (j) IV and 3 (6) (ii) (j) V	Adequacy of human resources for internal audit function – The BAC reviewed the adequacy of the human resources for the internal audit functions including the succession planning arrangements in place. The BAC is apprised of senior staff resignations of the Internal Audit Department including the reasons for such resignations.
3 (6) (ii) (k)	Findings of the internal audit – Internal audit findings with attention on major findings were reported to the BAC and taken up at the BAC meetings that followed which reviewed the status including management responses and made appropriate recommendations where necessary.
3 (6) (ii) (l)	Invitees to the Meetings of the BAC – The Chief Financial Officer and the Head of Internal Audit attended the regular meetings of the BAC during the year. The Chief Executive Officer and heads of operational and business units, Information Technology and Human Resources were also called in to the Meetings to discuss and report on the follow up actions on the audit findings. The External Auditors also attended the meetings of the BAC to present external audit findings and the Audit Plan. The BAC also met with representatives of the External Auditors on two occasions in the absence of the Director/CEO (Executive Director) and the Management members.
3 (6) (ii) (m)	Authority to investigate – The BAC's Terms of Reference provides it authority to investigate into any matter within its terms of reference; obtain the resources which it needs to carry out the investigation; full access to information; and authority to obtain external professional advice and to invite outsiders with relevant experience to be involved, if necessary.
3 (6) (ii) (n) and 3 (6) (ii) (p)	Meetings of the BAC – The BAC held 15 meetings during the year with due notice. These included separate meetings for reviewing the quarterly Financial Statements, meetings with the External Auditors, for reviewing the management responses to the Central Bank Statutory Examination Report and for the review of the IFRS 9 impact and quantification. The Agenda and the papers for discussions and consideration/ approval were circulated prior to the meeting. The minutes of the proceedings of the meetings were recorded in sufficient detail and maintained by the Company Secretary who functioned as the Secretary to the Committee.
3 (6) (ii) (o)	Report of the BAC – A Report of the BAC signed by the Chairperson is included on page 54 of this Annual Report outlining the scope and activities of the BAC, meetings and appropriate reference to the attendance of the members at the meetings held during the year.
3 (6) (ii) (q)	Whistle-Blowing Policy – The Bank has put in place a Whistle-Blowing Policy which was reviewed and approved during the year. The BAC has ensured that all employees are duly informed and duly advised of the effective use of the whistle-blowing process. Independent investigations were carried out by the Internal Audit Department on whistle-blower complaints and were reported to the BAC including follow up action as appropriate.
3 (6) (iii)	Board Human Resources and Remuneration Committee
3 (6) (iii) (a)	Determination of the remuneration policy – This is a key responsibility of the Board Human Resources and Remuneration Committee (BHRRC). The BHRRC on behalf of the Board aims to establish a transparent procedure for determining the remuneration, salaries, allowances and other financial or non-financial benefits, perquisites, special incentives, etc., to Directors, the Chief Executive Officer (CEO), the Key Management Personnel (KMPs) as well as other employees of the Bank. A Board approved Remuneration Policy is in place.
3 (6) (iii) (b)	Goals and targets – The Key Performance Indicators (goals and targets) of Director/CEO and of the KMPs in respect of the year 2017 were tabled and recommended by the Committee and thereafter approved by the Board at the respective meetings.
3 (6) (iii) (c)	Evaluations of the performance of the CEO and the KMPs – The BHRRC considered the evaluations of the performance of the Director/CEO and the KMPs against the approved KPIs for the year 2016 which was an indicator to determine revision of remuneration and profit/performance based bonus during the year 2017.
3 (6) (iii) (d)	Proceedings at meetings of the BHRRC – The Director/CEO attends the meetings of the committees by invitation. He was not present at meetings of the Committee, when matters relating to him were being discussed. Further details summarising the responsibilities of the Committees and attendance of Directors are provided in the Report of the BHRRC included in this Annual Report on page 56.
3 (6) (iv)	Board Nomination Committee
3 (6) (iv) (a)	Procedure Selection/Appointment of Directors, Chief Executive Officer (CEO) and Key Management Personnel (KMPs) – Appointment of the CEO and the KMPs comes under the scope and responsibilities of the Board Nomination Committee (BNC) as set out in its Terms of Reference. The procedure to select and appoint new Directors is set out in the Board approved Policy Governing Appointment of Directors.

CBSL direction	Level of compliance
3 (6) (iv) (b)	<p>Re-election of current Directors – The BNC recommends the re-election of the Directors who are due to retire in accordance with the Companies Act and the Bank’s Articles of Association (the Articles) taking into account their contribution to the Board. Upon obtaining the Board’s concurrence to the BNC’s recommendation, it is included in the Agenda of the Annual General Meeting (AGM) proposing and seeking shareholders’ approval for the re-election. The names of Non-Executive Director, Mr W D K Jayawardena and Independent Director, Ms M C Pietersz were proposed at the AGM held on 31 March 2017 and the shareholders approved their re-election in terms of Article 82 of the Articles of Association.</p> <p>Re-election of Directors in 2018 The BNC and the Board have recommended the proposals for the re-election of Non-Executive Director/ Deputy Chairman, Mr I C Nanayakkara and Independent Directors, Mr S P S Ranatunga and Mr P L S K Perera, who are due to retire by rotation in terms of Article 82 of the Articles at the AGM scheduled to be held on 29 March 2018. The proposals will be included in the Agenda for the AGM seeking shareholders’ approval for their re-election.</p>
3 (6) (iv) (c)	<p>Criteria for eligibility – CEO and KMPs – The criteria for eligibility such as qualifications, experience and key attributes are considered for appointment or promotion to the position of CEO and KMPs as defined in the respective job descriptions each of which have been agreed by the Committee.</p>
3 (6) (iv) (d)	<p>Fitness and propriety of Directors, CEO and KMPs – Affidavits and Declarations to assess the fitness and propriety of Directors, CEO and KMPs in terms of the Banking Act and its Directions are obtained prior to the appointment of Directors and at the time of appointing a KMP. Prior to the date of the AGM of the Bank every year, the Affidavits and Declarations submitted by the continuing Directors are forwarded to the Director, Bank supervision for review and approval.</p>
3 (6) (iv) (e)	<p>Succession plan – The BNC considers and discusses matters relating to succession arrangements of Directors including retiring Directors and also takes into consideration the regulatory guidelines and criteria to fill any vacancy. The Committee reviewed the succession arrangements for Key Management Personnel at its meetings held during the year. A Board approved Policy on Succession Planning for Key Positions is in place.</p>
3 (6) (iv) (f)	<p>Composition – The BNC comprised five Non-Executive Directors as at 31 December 2017, three of whom were independent and was chaired by Independent Director, Rear Admiral B A J G Peiris. Director/CEO attended the meetings by invitation.</p>
3 (6) (v)	<p>Board Integrated Risk Management Committee</p>
3 (6) (v) (a)	<p>Composition of the Committee – As at 31 December 2017, the Board Integrated Risk Management Committee (BIRMC) comprised four Non-Executive Directors three of whom were Independent Directors. The Director/CEO and the Chief Risk Officer (CRO) were also members of the BIRMC. The Committee was chaired by Independent Director, Mr S P S Ranatunga. The CRO is the Key Management Personnel in charge of supervising broad risk, market, liquidity, operations, credit and strategic risks and reports directly to the Committee. The Head of Compliance and Chief Financial Officer are co-opted to the Committee and attend regular meetings of the Committee. Other Key Management Personnel and Management attend the meetings when invited by the Committee.</p>
3 (6) (v) (b)	<p>Assessment of risks – The three Executive subcommittees of the BIRMC, namely the Assets and Liability Management Committee (ALCO), the Executive Credit Risk Management Committee (ECRMC) and the Executive Market and Operational Risk Management Committee (EMORMC) assess and review the respective categories of risks, namely, credit, market, liquidity and operational risks coming under their respective purview at their regular meetings which are held monthly. Key issues which were reported to the BIRMC at its quarterly meetings were reviewed by the Committee and the management advised appropriately. The risk management policies approved by the Board provide a framework for management and assessment of the overall risks to the Bank.</p> <p>The Committee also reviewed the risk assessments of its only subsidiary, Seylan Developments PLC, the principal activities of which are property development and management.</p>
3 (6) (v) (c)	<p>Effectiveness of Management Level Committees – The reports submitted by the Chief Risk Officer pursuant to the proceedings of the ALCO, the ECRMC and the EMORMC as well as the Minutes of the said committees were reviewed and the effectiveness of the three committees assessed by the BIRMC at its regular quarterly meetings.</p>
3 (6) (v) (d)	<p>Actions to mitigate specific risks – The BIRMC advises on corrective action by the management to mitigate the effects of specific risks where such risks are at levels beyond the prudent levels approved by the Committee or where they are not in line with the Bank’s policies and/or regulatory requirements.</p>
3 (6) (v) (e)	<p>Frequency of meetings – The Committee’s Terms of Reference provides that the Committee shall meet at least quarterly. The Committee met quarterly during the year 2017.</p>

CBSL direction	Level of compliance
3 (6) (v) (f)	<p>Action against those who fail to identify specific risks – Responsible officers of branches or departments failing to identify specific risks were identified during the internal audit reviews and internal audit investigations carried out and reported in the audit/investigation reports. Depending on the nature of the offence the reports were submitted to the line management and/or the Head of Human Resources and/or Chief Executive Officer and/or to the Disciplinary Unit for appropriate action.</p> <p>Reports on high risk offences including line management’s action taken to prevent such offences in the future were submitted to the BIRMC for information and appropriate advice or instructions issued if deemed necessary.</p>
3 (6) (v) (g)	<p>Risk assessment report to the Board – Copies of the confirmed Minutes of the Committee and recommendations of the Committee are submitted to the Board Meeting that follows the Committee meetings for the Board’s perusal and appropriate decisions/concurrence.</p>
3 (6) (v) (h)	<p>Compliance function – The Bank has in place an independent Compliance function headed by a Key Management Personnel namely, the Head of Compliance. The Head of Compliance reports directly to the BIRMC which oversees the compliance function. The key responsibilities of the compliance function includes assessing the Bank’s compliance with laws, regulations, internal controls and policies and industry best practices which are carried out through appropriate monitoring and testing tools. The Head of Compliance submitted periodic reports to the BIRMC and also to the Board.</p>
3 (7)	Related Party Transactions
3 (7) (i)	<p>Avoidance of conflicts of interest – A Board approved Policy and Process on Related Party Transactions and Avoidance of Conflicts of Interest (hereinafter referred to as “the Policy” or “Policy on RPTs”) is in place which was further reviewed and revised during the year. The Directors were aware of their responsibility towards complying with the requirements of this Policy and they ensured that conflicts of interest did not arise when transactions in which the Directors had an interest, particularly with related parties of the Bank as defined in Direction No. 3 (7) (i) which includes, any of the Bank’s subsidiary companies; Bank’s associate companies; Directors of the Bank; Key Management Personnel (KMPs); a close relation of any of the Bank’s Directors or of the KMPs; a shareholder owning a material interest in the Bank; a concern in which any of the Bank’s Directors or a close relation of any of the Bank’s Directors or any of its material shareholders had a substantial interest, were considered at Board and Board subcommittee meetings.</p>
3 (7) (ii)	<p>Types of transactions with related parties – Transactions defined under this direction are described in the Bank’s Policy on RPTs and were carried out with related parties in the normal course of business. Please refer disclosure in the Annual Report under Note 50 to the Financial Statements on “Related Party Disclosures”.</p>
3 (7) (iii)	<p>Favourable Treatment – The Board ensured that the Bank does not engage in transactions with related parties, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the Bank carrying on the same business such as; charging of a lower rate of interest than the Bank’s lending rate charged to its non-related party customers or paying more than the Bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty and providing services to or receiving services from a related party without an evaluation procedure.</p> <p>The Board has set a prudent percentage of the Bank’s regulatory capital to limit total net accommodation to related parties which said limit is monitored by the ECRMC and reported to the BIRMC.</p> <p>The Board approved Policy on RPTs ensures that all employees are aware of the policy and guidelines set out therein. Heads of Divisions/relevant officers who deal in related party transactions follow the Policy guidelines in their evaluations of related party transactions and provide a confirmation when submitting the return of the respective transactions to the Head of Compliance on a quarterly basis.</p>
3 (7) (iv)	<p>Accommodation to a Director or to a close relation of a Director (if any) – This was granted with the approval of the Board with not less than two-thirds of the number of Directors other than the Director concerned being present at such a meeting and voting in favour of the proposed accommodation. The Board ensured that such accommodations were secured by such security as may from time to time be determined by the Monetary Board.</p>
3 (7) (v)	<p>Obtaining of required security for accommodation granted to a related party of a Director being appointed or to a Director individually prior to such Director being appointed – There were no new Directors appointed during the year. However, the Board has ensured that when a Director is appointed to identify whether such Director and/or his/her close relation/s has been granted any accommodation by the Bank prior to his/her date of appointment to the Board.</p>
3 (7) (vi)	<p>Accommodation to employees or related parties connected to the employees – No accommodation has been granted on “more favourable” terms such as waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other in respect of accommodations to employees based on the scheme/s applicable to the employees of the Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.</p>

CBSL direction	Level of compliance																		
3 (7) (vii)	Prior approval of Monetary Board – The Bank's Policy on Related Party Transactions provides that no accommodation granted by the Bank under Direction 3 (7) (v) and 3 (7) (vi), nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect. The Bank has complied with this requirement.																		
3 (8)	Disclosures																		
3 (8) (i)	Annual Audited Financial Statements and Quarterly Financial Statements – The Annual Audited Financial Statements and Quarterly Financial Statements were prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and the Accounting Standards. Annual Audited Financial Statements were published in the Annual Report while the Quarterly Financial Statements were published in the newspapers in all three languages. The above Reports were released to the Colombo Stock Exchange (CSE) and uploaded on its website www.cse.lk for the information of the shareholders and the general public prior to publishing in the newspapers. The reports were also made available on the Bank's corporate website www.seylan.lk . The "Financial Calendar" appearing on page 202 provides the relevant dates.																		
3 (8) (ii) (a)	The Directors' Responsibility Statement for Financial Reporting and the Chief Executive Officer's and Chief Financial Officer's Responsibility Statement for Financial Reporting – These Statements on pages 203 to 205 confirm that the Financial Statements for the year ended 31 December 2017 published conforms to the rules and regulatory requirements.																		
3 (8) (ii) (b)	Directors' Statement on Internal Control – The Statement on pages 68 to 69 confirms that the financial reporting system provides reasonable assurance regarding the financial report and that the preparation of the Financial Statements for external purposes has been done in accordance with all relevant accounting principles and regulatory requirements.																		
3 (8) (ii) (c)	External Auditors' Certification – The Bank has obtained an Assurance Report on the internal controls over financial reporting from the External Auditors in accordance with the "Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Reports for Banks on Directors' Statements on Internal Control". Please refer page 70 of the Annual Report.																		
3 (8) (ii) (d)	Details of the Directors – Please refer the following pages of the Annual Report for the respective information: <table border="1"> <thead> <tr> <th>Details</th> <th>Section of the Annual Report</th> <th>Page/s</th> </tr> </thead> <tbody> <tr> <td>Names, qualifications, expertise</td> <td>Profile of the Directors</td> <td>19 to 22</td> </tr> <tr> <td>Fitness and propriety</td> <td>Report of the Board of Directors</td> <td>71 to 83</td> </tr> <tr> <td>Details on Directors interest in other entities</td> <td>Annexure to the Report of the Board of Directors</td> <td>81 to 83</td> </tr> <tr> <td>Transactions with the Bank/related party transactions</td> <td>Note 50 to the Financial Statements</td> <td>288</td> </tr> <tr> <td>Fees/remuneration paid to Directors</td> <td>Disclosure under Direction 3 (8) (ii) (f) below</td> <td>53</td> </tr> </tbody> </table>	Details	Section of the Annual Report	Page/s	Names, qualifications, expertise	Profile of the Directors	19 to 22	Fitness and propriety	Report of the Board of Directors	71 to 83	Details on Directors interest in other entities	Annexure to the Report of the Board of Directors	81 to 83	Transactions with the Bank/related party transactions	Note 50 to the Financial Statements	288	Fees/remuneration paid to Directors	Disclosure under Direction 3 (8) (ii) (f) below	53
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3 (8) (ii) (e)	Total net accommodations to related parties – Accommodation granted to related parties is given in Note 50 to the Financial Statements. The net accommodation as at 31 December 2017, granted to each category of related parties as defined in Direction 3 (7) (i) and as per LKAS 24 is given below as a percentage of the Bank's regulatory capital. <table border="1"> <thead> <tr> <th>Category of related party transactions</th> <th>Amount LKR Mn.</th> <th>% of regulatory capital</th> </tr> </thead> <tbody> <tr> <td>Directors, Key Management Personnel and their close relations (Transactions including credit card accommodations)</td> <td>168.82</td> <td>0.46</td> </tr> <tr> <td>Subsidiary, Seylan Developments PLC</td> <td>75.00</td> <td>0.21</td> </tr> <tr> <td>Material shareholders of the Bank and concerns in which a Director of the Bank or material shareholder has a substantial interest</td> <td>7,523.99 *</td> <td>20.64</td> </tr> <tr> <td>Other entities including common directorship entities</td> <td>7,191.16 **</td> <td>19.73</td> </tr> </tbody> </table>	Category of related party transactions	Amount LKR Mn.	% of regulatory capital	Directors, Key Management Personnel and their close relations (Transactions including credit card accommodations)	168.82	0.46	Subsidiary, Seylan Developments PLC	75.00	0.21	Material shareholders of the Bank and concerns in which a Director of the Bank or material shareholder has a substantial interest	7,523.99 *	20.64	Other entities including common directorship entities	7,191.16 **	19.73			
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* Includes accommodations non-funded, undrawn facilities – LKR 4,729.94 Mn.

** Includes accommodations non-funded, undrawn facilities – LKR 3,293.08 Mn.

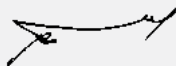
CBSL direction	Level of compliance														
3 (8) (ii) (f)	<p>Remuneration to Key Management Personnel (KMPs) and Transactions with KMPs and aggregate values of the transactions of the Bank with its KMPs.</p> <p>The aggregate remuneration paid to Key Management Personnel and transactions of the Bank with Key Management Personnel during the year 2017 were as follows:</p> <table border="1"> <thead> <tr> <th>Remuneration/transaction</th> <th>Amount LKR Mn.</th> </tr> </thead> <tbody> <tr> <td>Remuneration to KMPs (as per CBSL definition)*</td> <td>225.26</td> </tr> <tr> <td>Directors' fees for Non-Executive Directors</td> <td>22.50</td> </tr> <tr> <td>Loans and Advances (including Credit Card accommodations to KMPs and Non-Executive Directors)</td> <td>168.82</td> </tr> <tr> <td>Deposits of KMPs and Non-Executive Directors</td> <td>310.29</td> </tr> <tr> <td>Investments by KMPs and Non-Executive Directors – other investments (liability)</td> <td>134.02</td> </tr> <tr> <td>Other instruments with KMPs and Non-Executive Directors – securities purchased under resale agreements (Assets)</td> <td>71.55</td> </tr> </tbody> </table> <p><i>*Includes cash/non-cash benefits and post employment benefits to Directors and KMPs.</i></p>	Remuneration/transaction	Amount LKR Mn.	Remuneration to KMPs (as per CBSL definition)*	225.26	Directors' fees for Non-Executive Directors	22.50	Loans and Advances (including Credit Card accommodations to KMPs and Non-Executive Directors)	168.82	Deposits of KMPs and Non-Executive Directors	310.29	Investments by KMPs and Non-Executive Directors – other investments (liability)	134.02	Other instruments with KMPs and Non-Executive Directors – securities purchased under resale agreements (Assets)	71.55
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3 (8) (ii) (g)	<p>External Auditors Certification of the Compliance with Direction No. 11 of 2007 on Corporate Governance – The External Auditors have performed an agreed-upon procedure in accordance with the principles set out in the Sri Lanka Related Services Practice Statement 4750 and have provided a Factual Findings Report to the Board on the Bank's Extent of Compliance with the Directions as disclosed in this Corporate Governance Report. Please refer confirmation stated at the end of this report.</p>														
3 (8) (ii) (h)	<p>Compliance with prudential requirements, regulations, laws and internal controls – Statement of Directors' Responsibility for Financial Reporting on pages 203 to 204 and Directors' Statement on Internal Controls on pages 68 to 69 provide the extent of Bank's compliance in this regard.</p> <p>There were no material non-compliance to prudential requirements, regulations, laws and internal controls which affected the Bank during the year.</p>														
3 (8) (ii) (i)	<p>Supervisory Concerns – There were no significant supervisory concerns on lapses in the Bank's risk management system or non-compliance with these Directions that have been pointed out by the Director, Bank Supervision, Central Bank of Sri Lanka and requiring disclosure to the public.</p>														

3 (9) Transitional and General Provisions

3 (9) (i)	The Board of Seylan Bank PLC was reconstituted on the 30 December 2008 and the current Directors were appointed on or after the said date. Therefore, the directions relating to compliance with the transitional provisions of the Banking Act Directions No. 11 of 2007, are not applicable to the Bank.
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Confirmation

In terms of Direction 3 (8) (ii) (g) of the Banking Act Direction No. 11 of 2007, on behalf of the Board of Directors, we confirm that the findings of the "Factual Findings Report" dated 16 February 2018 issued by the Auditors, Messrs KPMG, Chartered Accountants to the Board of Directors pursuant to the agreed-upon procedure carried out by them in accordance with "Sri Lanka Related Services Practice Statement 4750" are consistent with the matters disclosed in the above Annual Corporate Governance Report on the mandatory compliance with the Banking Act Direction No. 11 of 2007 (as amended).



W M R S Dias
Chairman



(Mrs) N N Najumudeen
Company Secretary

16 February 2018
Colombo

Report of the Board Audit Committee

The Board Audit Committee, with authority and responsibilities, vested by the Board presents its Report for the year ended 2017. This Report was approved by the Board of Directors.

Board Audit Committee's objective

The overall objective of Seylan Bank's Board Audit Committee ("Audit Committee" or "the Committee") is to assist the Board to fulfil its oversight responsibilities for the financial reporting process, its systems of internal control, the audit process and the process for monitoring compliance with laws, regulations and codes of conduct.

Terms of reference

The scope and responsibilities of Seylan Bank's Board Audit Committee emanates from its Terms of Reference approved by the Board.

Composition of the Committee during the year

The Committee comprised:

- Ms M Coralie Pietersz – Independent Director/Senior Director – Chairperson of the Committee
- Mr Samantha P S Ranatunga – Independent Director
- Mr W D Kapila Jayawardena – Non-Executive Director
- Mr P L S Kumar Perera – Independent Director (Appointed to the Committee with effect from 25 January 2017)

The Chairperson of the Committee is an Associate Member of the Institute of Chartered Accountants in England and Wales and a Fellow Member of The Institute of Chartered Accountants of Sri Lanka with over 30 years experience in auditing, finance, accounting and banking with over 20 years at senior level. The profiles of the members of the Committee are given on page 19 to 22 of this Annual Report.

The Chief Financial Officer and the Head of Internal Audit were invited and attended the regular meetings of the Committee. The Director/Chief Executive Officer ("the CEO") and other members of the Board and Senior Management/staff of the Bank were also invited to the meetings as and when the Committee required their presence. The Company Secretary functioned as the Secretary to the Committee.

Meetings

The Committee held 15 meetings during the year, which included two meetings with the External Auditors without the presence of the CEO and the Management; special meetings to review and discuss in depth the Auditors' Management Letter on the 2016 year end audit, to review the findings relating to half-year audit of 2017; to review the SLFRS 9 impact assessment and a further special meeting to review the Bank's proposed action and responses to the Central Bank's Statutory Examination Report as at 31 January 2017.

Attendance of the members at the Audit Committee meetings

The attendance of the members at the meetings is presented in the table on page 34 of this Annual Report.

Responsibilities and activities of the Committee

The responsibilities and activities carried out by the Committee and the extent of compliance are described in the following sections of the Corporate Governance Report (pages 47 to 49 of this Annual Report) which reports the extent of compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance.

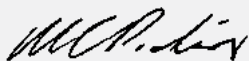
Section	Responsibility
3 (6) (ii) (c) and (d)	The Audit Committee's role with regard to External Auditors
3 (6) (ii) (e)	Policy on engagement of an External Auditor for non-audit Services
3 (6) (ii) (f)	Scope of external audit/audit plan
3(6) (ii) (g)	Review of the Bank's financial information
3 (6) (ii) (h)	Meeting with the External Auditors without executive management
3 (6) (ii) (i)	Management Letter of the External Auditor's
3 (6) (ii) (j)	Internal audit functions Internal audit plan/programme Appraisals/assessments of performance of senior staff of the Internal Audit Department Adequacy of human resources for internal audit function Independence of the internal audit function.
3 (6) (ii) (k) and (m)	Major findings of the Internal Audit and; Authority to investigate
3 (6) (ii) (n) and (p)	Meetings and minutes of the Audit Committee
3 (6) (ii) (q)	Whistle-Blowing Policy

Effective internal control over financial reporting

Whilst the Management is primarily responsible for the Financial Statements and for maintaining effective internal control over financial reporting and assessing the effectiveness of such control systems, the Committee maintained vigilance in exercising its oversight role in respect of financial reporting, internal controls and the risk management process. Refer Sections 3 (8) (ii) (b) and (c) of the Corporate Governance Report (page 52).

Evaluation of the Committee

The Board Audit Committee carried out a self-evaluation/appraisal of its performance and effectiveness during the year under review and was of the view that the Committee had carried out its responsibilities satisfactorily during the year 2017.



Coralie Pietersz

Chairperson – Board Audit Committee
(Independent Director/Senior Director)

16 February 2018
Colombo

Report of the Board Human Resources and Remuneration Committee

The Board Human Resources and Remuneration Committee (“the BHRRC” or “the Committee”) presents its Report for the year ended 31 December 2017. This Report was approved by the Board of Directors.

Composition of the Committee

The composition of the Committee during the year was as follows:

- Mr Samantha P S Ranatunga – Independent Director – Chairman of the Committee
- Mr Ishara C Nanayakkara – Non-Executive Director/Deputy Chairman
- Rear Admiral B Ananda J G Peiris – Independent Director (Retired from the Board on 8 January 2018)
- Ms M Coralie Pietersz – Independent Director/Senior Director
- Mrs Sandya K Salgado – Independent Director (Appointed to the Committee on 25 January 2017)

The Company Secretary functioned as the Secretary to the Committee during the year. The Director/Chief Executive Officer (CEO) and the Head of Human Resources who is responsible for overseeing the overall human resource management function of the Bank attended the meetings of the Committee on invitation and participated in the deliberations except when matters of their own interest, performance and compensation were discussed.

Scope and objective of the BHRRC

The Committee assists and makes recommendations to the Board of Directors in exercising its oversight role and responsibilities on matters related to human resource strategies and policies and determination of compensation, benefits and remuneration for the Directors, the Chief Executive Officer (CEO) and for the Key Management Personnel (KMPs) of the Bank. Its primary responsibilities include reviewing, monitoring and making recommendations to the Board of Directors on matters of strategic importance related to human resources and remuneration of all other employees of the Bank as well. The responsibilities are detailed in the Terms of Reference of the Committee approved by the Board.

Meetings

The Committee held five meetings during the year. Two resolutions by circulation were also passed to decide on important and urgent issues. Decisions and minutes and/or papers on recommendations made by the Committee were tabled to the meetings of the Board of Directors for concurrence or approval/decision as appropriate.

The attendance of the members at the meetings of the Committee is presented in the table on page 34 of this Annual Report.

Remuneration policy

The Remuneration Policy of the Bank aims to establish a formal and transparent procedure for determining remuneration, salaries and allowances and other financial benefits and perquisites to Directors, the CEO, the KMPs and all other employees of the Bank. The policy and practices are linked to the short-term and long-term strategic goals and operational objectives of the Bank and to achieve same, aims to attract, motivate and retain qualified and competent persons (Directors as well as employees) at all levels.

Directors’ remuneration and benefits

The Board as a whole determines the remuneration and/or allowances and fees for both Executive and Non-Executive Directors based on the recommendations of the BHRRC.

The Terms of Reference of the BHRRC provides that granting of any special payments and/or benefits to the Executive Directors upon their resignation or retirement and to any Non-Executive Director upon their retirement in addition to normal fees and/or remuneration shall be subject to the recommendation of the Committee. No such recommendations were made during the year requiring shareholder approval and/or requiring disclosure in this Annual Report.

Aggregate remuneration to Directors, CEO and the KMPs

Aggregate remunerations paid to the Directors, CEO and the KMPs are disclosed under Direction No. 3 (8) (ii) (f) in the table reporting compliance with the Banking Act Directions on Corporate Governance (page 53).

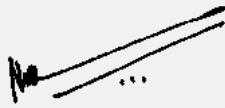
Responsibilities of the BHRRC

The responsibilities of the Committee carried out during the year in compliance with the Banking Act Directions on Corporate Governance No. 11 of 2007 (“Banking Act Directions”) and the Code of Best Practice (2013) on Corporate Governance jointly issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (Code of Best Practice) have been disclosed in the relevant sections of the Corporate Governance Report published in this Annual Report as follows:

- 3 (6) (iii) (a) and (d) of the Banking Act Directions – Page 49.
- Sections A.11, B.1, B.2 and B.3 of the Code of Best Practice – Pages 37 to 38.

Self-evaluation of the Committee

The BHRRC carried out a self-evaluation of its performance during the year and was satisfied that the Committee’s responsibilities had been carried out in a satisfactory manner.



Samantha Ranatunga

Chairman – Board Human Resources and Remuneration Committee
(Independent Director)

16 February 2018
Colombo

Report of the Board Nomination Committee

The Board Nomination Committee (“the Committee”) presents its Report for the year ended 31 December 2017 pursuant to the review of its performance during the year 2017. This Report was approved by the Board of Directors.

Main objective of the Board Nomination Committee

The Board Nomination Committee was established with the primary objective of assisting the Board in fulfilling its role and responsibilities involving the appointment of Directors and Key Management Personnel (KMPs) of the Bank.

Composition of the Board Nomination Committee

During the year 2017, the Committee comprised five Non-Executive Directors, three of whom were Independent Directors as mentioned below:

- Rear Admiral B Ananda J G Peiris – Independent Director – Chairman of the Committee (Retired from the Board on 8 January 2018)
- Mr W M R S Dias, Non-Executive Director
- Mr Ishara C Nanayakkara, Non-Executive Director
- Mr Samantha P S Ranatunga – Independent Director – (Appointed as the Chairman of the Committee with effect from 29 January 2018)
- Mr P L S Kumar Perera – Independent Director

Note: Independent Director/Senior Director, Ms M Coralie Pietersz was appointed to the Committee with effect from 29 January 2018.

The Director/Chief Executive Officer (CEO), Mr Kapila Ariyaratne and Head of Human Resources, Mr Jayantha Amarasinghe attended the meetings of the Committee on invitation. The Company Secretary functioned as the Secretary to the Committee during the year.

Meeting proceedings of the Board Nomination Committee

The Committee held five meetings during the year with due notice except one meeting held on very short notice. Copies of the minutes of the meetings and reports on the recommendations and decisions of the Committee were tabled at the Board meetings that ensued for perusal and concurrence/decisions as appropriate. Attendance of the members at the meetings of the Board Nomination Committee is presented in the table on page 34 of this Annual Report.

Scope of work and responsibilities of the Committee

The responsibilities of the Committee carried out during the year in compliance with the Banking Act Directions on Corporate Governance No. 11 of 2007 (“Banking Act Directions”) and the Code of Best Practice (2013) on Corporate Governance jointly issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (“the Code of Best Practice”) have been disclosed in the following sections of the Corporate Governance Report:

- Section 3 (6) (iv) (a) to (f) of the Banking Act Directions – Pages 49 to 50.
- Section A.7 and A.8 of the Code of Best Practice – Page 136.

Evaluation of the Committee

The Board Nomination Committee carried out a self-evaluation of its performance during the year under review and was satisfied that the Committee had carried out its responsibilities in a satisfactory manner.



Samantha Ranatunga
Chairman – Board Nomination Committee
(Independent Director)

16 February 2018
Colombo

Report of the Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee (“the BIRMC” or “the Committee”) presents its Report for the year ended 31 December 2017. The Report was approved by the Board of Directors.

Overall objective of the Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee was established with a mandate to ensure that the Bank implements an approved policy framework with defined procedures and systems for identifying, measuring, monitoring and controlling all credit, market, liquidity and operational and other risks faced by the Bank and impacting its reputation, managing those risks within pre-approved limits for risk appetite and ensuring compliance.

Composition of the BIRMC

The Committee comprised:

- Mr Samantha P S Ranatunga – Independent Director – Chairman of the Committee
- Mr W M R S Dias – Non-Executive Director/Chairman
- Ms M Coralie Pietersz – Independent Director/Senior Director
- Mr P L S Kumar Perera – Independent Director
(Appointed to the Committee with effect from 25 January 2017)
- Mr Kapila P Ariyaratne – Director/CEO
- Mr Ramesh Jayasekara – Chief Risk Officer

The Head of Compliance and the Chief Financial Officer are co-opted to the Committee and attended the regular meetings of the Committee. Other management members attended the meetings of the Committee on invitation. The Company Secretary functioned as the Secretary to the Committee during the year.

Meetings of the BIRMC

The Committee met four times during the year on a quarterly basis. The minutes of the Committee meetings were recorded by the Secretary and confirmed minutes were made available to the Board of Directors for information whilst recommendations of the Committee were submitted to the Board for review and appropriate decision.

Attendance

The Chief Risk Officer was present at all meetings of the Committee held during the year. Details of attendance of the Directors (who were members of the Committee) at the meetings held during the year are presented in the table summarising the attendance of Directors at subcommittee meetings on page 34.

Terms of Reference

The Terms of Reference of the Committee was reviewed and approved during the year.

Compliance with the Corporate Governance Directions

The extent of the Committee’s compliance with the Banking Act Directions on Corporate Governance No. 11 of 2007 in addition to those which have been disclosed in this Report, has been briefed in the following sections of the Corporate Governance Report (pages 50 to 51 of this Annual Report).

Section	Responsibility
3 (6) (v) (b)	The assessment of all risks
3 (6) (v) (c)	Effectiveness of management level committees addressing and managing specific risks
3 (6) (v) (d)	Actions to mitigate specific risks which are at levels beyond the prudent levels approved by the Committee
3 (6) (v) (f)	Action against those who fail to identify specific risks

Compliance function

The Bank has appointed a dedicated Head of Compliance, Mrs Dilani Sooriyaarachchi who reports directly to the BIRMC. The Head of Compliance is responsible for the due compliance by the Bank with laws, regulations, internal controls and policies and industry best practices. The Committee reviewed compliance-related matters and also reviewed and recommended compliance-related policies which were thereafter approved by the Board. The Compliance Programme for 2017 and the Compliance Strategy for the next three years – 2018/2020 were also approved by the Committee during the year.

Integrated Risk Management Policy Framework and system implementation

Some of the key and supplementary activities carried out and/or endorsed by the Committee during the year included (but are not limited to); review and recommendation of policies related to risk management; review and approval of the Risk Management Roadmap for 2017–2020; approval of the overall risk appetite of the Bank; review of the extent of effectiveness of the Bank’s business continuity planning, disaster recovery testing, and related policies and procedures to control information security risk; review of the progress on the implementation of the Baseline Security Standards; review of overall credit framework and guidelines; Internal Capital Adequacy Assessment Process and review of the progress on moving to the advanced approaches and the Regulatory Capital Requirements (2017-2019) in line with the Central Bank Guidelines on Basel III. The Committee also reviewed the risk assessments and controls of the Bank’s Subsidiary, Seylan Developments PLC.

Risk Management Department

The Risk Management Department is an independent unit headed by the Chief Risk Officer (CRO), Mr Ramesh Jayasekara. The Department is responsible to create, to manage and to implement a pervasive bank-wide risk culture. The BIRMC reviewed the adequacy of the activities of the Risk Management Department to focus on improving communication and implementing risk management responsibilities at all levels of the Bank. A comprehensive report was prepared by the Risk Management Department disclosing the Bank’s level of risk management and assessment including the levels of risk under different risk categories. The said report is presented on pages 84 to 116 of this Annual Report.

Evaluation of the Board Integrated Risk Management Committee

The Members of the BIRMC carried out a self-assessment of the Committee’s activities during the year and concurred that the Committee had carried out its responsibilities in a satisfactory manner during the year.



Samantha Ranatunga

Chairman – Board Integrated Risk Management Committee
(Independent Director)

16 February 2018
Colombo

Report of the Board

Credit Committee

The Board Credit Committee (“the Committee”) presents its Report in respect of the year 2017. This Report was approved by the Board of Directors.

Composition of the Board Credit Committee as at 31 December 2017

The Committee comprised:

- Mr Ishara C Nanayakkara – Non-Executive Director – Chairman of the Committee
- Rear Admiral B Ananda J G Peiris – Independent Director
(Retired from the Board with effect from 8 January 2018)
- Mr P L S Kumar Perera – Independent Director
(Stepped down from the Committee with effect from 25 January 2018)
- Mr Kapila P Ariyaratne – Director/CEO
- Mr Anushka Wijesinha (Appointed to the Committee with effect from 25 January 2017)

The Company Secretary functioned as the Secretary to the Committee.

Scope and responsibilities of the Board Credit Committee

To improve the business and soundness of the Bank by promoting and reinforcing a sound, robust and healthy credit risk acceptance and management culture by:

- a. Reviewing and where appropriate approving credit facilities or recommending them to the Board for approval.
- b. Guiding management to improve credit policies, procedures and lending guidelines and their implementation as well as processes for recoveries, empowerment and accountability for credit decision making.
- c. Supporting and reinforcing the independent role of Credit Risk Management and ensuring that it has the ability, determination and assertiveness to influence key credit decision makers at all levels.

Meetings of the Board Credit Committee

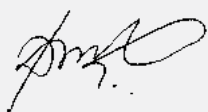
The Committee held 24 meetings during the year (21 meetings were held in 2016). Four resolutions by circulations were also passed from time to time in respect of credit proposals which required the Committee’s recommendation or approval on an urgent basis. Recommendations of the Committee were circulated to the Board for approval whilst copies of the confirmed minutes were tabled for perusal of the Board at the monthly Board meetings and important issues discussed. Recommendations of the Committee in respect of proposals for new facilities (exceeding a decided limit) were evaluated by the Board at the meetings of the Board of Directors. Directors abstained from voting on any resolution in which the Directors had related party interests or were interested by virtue of their directorships. Such Directors were not counted in the quorum for the relevant agenda item.

The attendance of the members at the meetings is presented on page 34.

The scope and responsibilities of the Committee are defined in the Terms of Reference of Committee which was reviewed and approved during the year 2017. The activities carried out by the Committee included approvals, recommendations or appropriate decisions on credit facilities falling within its delegated authority, recommendation of the revised Credit Standard and Policy Manual, Delegated Authority Limits for different levels of lending, review and assessment of the overall asset quality of the Bank and review of the exposure to different sectors including the impact due to change in regulations.

Evaluation of the Committee

The Committee carried out a self-evaluation of the Committee’s proceedings during the year and agreed that it had carried out its responsibilities in a satisfactory manner.



Ishara Nanayakkara

Chairman – Board Credit Committee
(Non-Executive Director/Deputy Chairman)

16 February 2018
Colombo

Report of the Board Sustainability Committee

The Board Sustainability Committee (“the Committee”) with its authority and responsibilities vested by the Board presents its Report for the year 2017. This Report was approved by the Board of Directors.

Composition

During the year, the Committee comprised:

- Mr Ishara C Nanayakkara – Non-Executive Director – Chairman of the Committee
- Rear Admiral B Ananda J G Peiris – Independent Director
(Retired from the Board with effect from 8 January 2018)
- Mr Kapila P Ariyaratne – Director/Chief Executive Officer
- Mr S Viran Corea – Non-Executive Director
- Mrs Sandya K Salgado – Independent Director (Appointed to the Committee on 25 January 2017)

(Independent Director, Mr Samantha P S Ranatunga stepped down from the Committee on 25 January 2017).

The Chief Financial Officer, Mrs Champika Dodanwela and the Head of Marketing, Mr Tilan Wijeyesekara, attended the meetings of the Committee held during the year by invitation. The Company Secretary was the Secretary to the Committee during the year.

Meetings

Three meetings of the Board Sustainability Committee were held during the year 2017. Copies of the confirmed minutes of the meetings were circulated to the Board for review and concurrence of the matters discussed. Details of the Directors’ attendance at the meetings are presented in the table appearing on page 34 of this Annual Report.

Terms of Reference (TOR) and scope and responsibilities of the Committee

The scope and responsibilities of the Committee are set out in the TOR which stipulates that the Bank shall follow the GRI (Global Reporting Initiative) Sustainability Reporting Guidelines for reporting sustainability initiatives of the Bank.

Corporate Social Responsibility (CSR) activities

The CSR activities during the year were steered by the Executive Sustainability Committee headed by the Director/CEO. The Committee reviewed the progress made by the Bank on the establishment of an additional 150 libraries approved by the Committee under the “Seylan *Pahasara*” project with the overall number increasing to 250 libraries. The project for the distribution of computers to underprivileged schools was also approved by the Committee and progress reviewed during the year. The Bank also carried out several other CSR activities to support communities. Pages 190 to 195 of this Annual Report provide a detailed report of the Sustainability/CSR initiatives of the Bank.

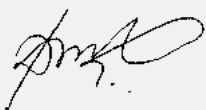
Environmental and Social Risk Management Policy

As a means of prudently devising the Bank’s loan book growth, mitigating credit, legal and reputational risks if any, that are inherent with environmental and social impact arising from advances granted to corporate and small and medium enterprise (SME) clients, the Committee reviewed and recommended an Environmental and Social Risk Management Policy for the Bank and the same was approved by the Board.

The Bank’s External Auditors, Messrs KPMG were engaged by the Bank for assurance services relating to Sustainability Reporting who provided their assurance report in respect of the year 2017 which is published on page 154 to 155 of this Annual Report.

Evaluation of the Committee

The Committee carried out a self-evaluation of the activities of the Committee and was satisfied with its performance during the year.



Ishara Nanayakkara

Chairman – Board Sustainability Committee
(Non-Executive Director/Deputy Chairman)

16 February 2018
Colombo

Report of the Board Marketing and Product Development Committee

The Board Marketing and Product Development Committee (“the Committee”) with its authority and responsibilities vested by the Board presents its Report for the year 2017. This Report was approved by the Board.

Composition of the Board Marketing and Product Development Committee

During the year, the Committee comprised:

- Mr Samantha P S Ranatunga – Independent Director – Chairman of the Committee
- Mr W M R S Dias – Non-Executive Director
- Rear Admiral B Ananda J G Peiris – Independent Director
(Rear Admiral Ananda Peiris retired from the Board with effect from 8 January 2018)
- Mr Kapila P Ariyaratne – Director/Chief Executive Officer
- Mrs Sandya K Salgado – Independent Director
(Appointed to the Committee with effect from 25 January 2017)
- Mr Anushka Wijesinha – Independent Director
(Appointed to the Committee with effect from 25 August 2017)

Deputy General Manager, Retail Banking, Mr Tilan Wijeyesekera who heads the Marketing and Personal Banking Units and the Chief Financial Officer, Mrs Champika Dodanwela were co-opted to the Committee and attended the regular meetings. The Company Secretary functioned as the Secretary to the Committee.

Scope and objectives defined in the Terms of Reference of the Committee

The scope of the Committee which is defined in the Terms of Reference of the Committee is to review the overall marketing plans of the Bank, to ensure that the plans aim to optimise value creation for the Bank and support the strategic goals. The Committee ensures that the Bank actively pursues new product opportunities and develops viable products with the aim of achieving business growth.

Meetings of the Committee

The Committee held three meetings during the year. Copies of the minutes of the meetings were submitted for perusal to the Board. Refer page 34 for attendance of the members at the meetings. The Committee reviewed, with in-depth deliberations, competitor strategies, market share, marketing spend, progress and performance of the different products and promotional campaigns which were undertaken by the Bank in line with the approved Strategic Marketing Plan of the Bank for the year 2017. The Strategic Marketing Plan for the year 2018 was also approved by the Committee at its last meeting held in 2017.

Evaluation of the Committee

The Committee carried out a self-evaluation of the performance and effectiveness of the Committee during the year 2017 and concurred that the Committee had carried out its responsibilities in a satisfactory manner.



Samantha Ranatunga

Chairman – Board Marketing and Product Development Committee
(Independent Director)

16 February 2018
Colombo

Report of the Board Governance and Compliance Committee

The Board Governance and Compliance Committee presents its Report for the year ended 31 December 2017. This Report was approved by the Board of Directors.

Scope and Terms of Reference of the Board Governance and Compliance Committee

The Board Governance and Compliance Committee (hereinafter referred to as “the Committee” or “the BGCC”) was established by the Board of Directors of the Bank with the main objective of assisting the Board of Directors in adopting appropriate governance standards for the Bank in fulfilling the Board’s responsibility for oversight of the corporate governance processes and practices and compliance practices of the Bank.

This scope and objective of the Committee is set out in the Terms of Reference of the Committee. The Terms of Reference was revised and approved by the Board in 2017.

Composition

During the year, the Committee comprised the following members:

- Mr P L S Kumar Perera – Independent Director – Chairman of the Committee
- Mr W M R S Dias – Non-Executive Director/Chairman
- Ms M Coralie Pietersz – Independent Director/Senior Director
- Rear Admiral B Ananda J G Peiris – Independent Director (Retired from the Board with effect from 8 January 2018)
- Mr S Viran Corea – Non-Executive Director

The Company Secretary functioned as the Secretary to the Committee during the year. The Director/Chief Executive Officer and the Head of Compliance attended the regular meetings of the Committee on invitation.

Meetings of the Board Governance and Compliance Committee

The Committee held four meetings during the year. Details of attendance of members at the meetings are presented in the table on page 34 of this Annual Report. Copies of the minutes of the meetings were submitted for perusal of the Board. Recommendations of the Committee were considered at the Board meetings that followed the Committee meetings for review and decision.

Key responsibilities of the Committee

Governance

A Corporate Governance Framework is in place which was reviewed and revised by the Committee and approved by the Board during the year. The Committee is responsible for providing advice to the Board on the most appropriate corporate governance policies in particular, the adherence to the Corporate Governance Framework of the Bank consistent with the regulations.

The Committee reviewed and/or recommended the following which were approved by the Board thereafter.

- Revisions to the Shareholder Communication Policy
- Revisions to the Terms of Reference for the Senior Director
- Formation of the Strategic Plan Committee
- Compliance Risk Assessment Mechanism Module

Compliance

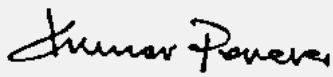
The Committee reviewed several aspects of the Bank’s compliance function and provided advice and guidance to the Head of Compliance for executing her responsibilities. The Committee also regularly reviewed the extent of compliance of the Bank’s Subsidiary, Seylan Developments PLC in terms of its statutory obligations and corporate governance.

Board performance evaluation

The Committee also discussed the Board Performance Evaluations submitted by the Directors and submitted its comments and recommendations to the Board which facilitated the Board members to carry out the Board Performance Evaluation in an effective manner.

Evaluation of the Committee

The Committee carried out a self-evaluation of the performance and effectiveness of the Committee and was satisfied that the Committee carried out its responsibilities in a satisfactory manner during the year, 2017.



Kumar Perera

Chairman – Board Governance and Compliance Committee
(Independent Director)

16 February 2018
Colombo

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee (“the Committee” or “RPTRC”) of the Board presents its Report for the year ended 31 December 2017. This Report was approved by the Board of Directors.

Scope and Terms of Reference of the Related Party Transactions Review Committee

Related Party Transactions Review Committee was established by the Board of Directors to review related party transactions of the Bank. The Terms of Reference of the Committee sets out the objective and scope of the Committee which are in accordance with the Listing Rules of Colombo Stock Exchange (CSE) and the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC). The Terms of Reference was reviewed and revised during the year.

Composition

The Committee comprised the following members during the year:

- Mr P L S Kumar Perera – Independent Director – Chairman of the Committee
- Ms M Coralie Pietersz – Independent Director/Senior Director
- Rear Admiral B Ananda J G Peiris – Independent Director
(Retired from the Board with effect from 8 January 2018).
- Mr S Viran Corea – Non-Executive Director
- Mr Anushka S Wijesinha – Independent Director
(Appointed to the Committee with effect from 25 January 2017).

The Company Secretary functioned as the Secretary to the Committee.

The Director/Chief Executive Officer and the Head of Compliance attended the regular meetings of the Committee on invitation.

Meetings of the RPTRC

The Committee held four meetings during the year. Details of attendance of the members at the meetings are presented in the table on page 34 of this Annual Report. Copies of the confirmed minutes of meetings were submitted for perusal of the Board.

Review of Related Party Transactions

The Committee ensured compliance with Section 9 of the Rules of the CSE and the SEC’s Code on Related Party Transactions and a summary of recurrent related party transactions approved by the Board were reviewed by the Committee at its regular meetings. There were no non-recurrent transactions which required prior recommendation of the Committee nor did the Bank carry out any related party transactions (recurrent or non-recurrent) which required shareholder approval and/or disclosure in terms of Rule 9.3.1 and 9.3.2 of the CSE Rules.

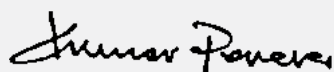
The Committee also regularly reviewed and provided necessary guidance and advice to put in place a mechanism/process for recording, monitoring and reporting related party transactions of the Bank.

Related party transactions and conflict of interest policy and process document

The Committee also reviewed and recommended the necessary revisions to the Bank’s Related Party Transactions and Conflict of Interest Policy and Process document and was approved by the Board during the year.

Evaluation of the Committee

The Committee carried out a self-evaluation of the performance and effectiveness of the Committee during the year under review and agreed that the Committee had carried out its responsibilities in a satisfactory manner.



Kumar Perera

Chairman – Related Party Transactions Review Committee
(Independent Director)

16 February 2018
Colombo

Report of the Board Strategic Plan Committee

The Board Strategic Plan Committee (“the Committee”) with its authority and responsibilities vested by the Board presents its Report for the year 2017. This Report was approved by the Board of Directors.

Objective of the Committee

The Committee was constituted by the Board in June 2017 with the main objective of overseeing, monitoring and providing the necessary guidance to drive the Bank’s four-year Strategic Plan 2017-2020.

Terms of Reference and scope and responsibilities of the Committee

The scope and responsibilities of the Committee are set out in the Board-approved Terms of Reference of the Committee and the objective of the same is to ensure that the four-year Strategic Plan (2017 to 2020) is implemented within the set timeliness.

Composition

The Committee comprised:

- Mr Samantha Ranatunga – Independent Director, Chairman of the Committee
- Mr Ishara Nanayakkara – Non-Executive Director/Deputy Chairman
- Mr Kapila Ariyaratne – Director/Chief Executive Officer
- Mr Anushka Wijesinha – Independent Director
- Mrs Sandya Salgado – Independent Director

The Company Secretary functioned as the Secretary to the Committee.

Meetings

Four meetings of the Board Strategic Plan Committee were held during the year 2017. Copies of the confirmed minutes of the meetings were circulated to the Board for review and concurrence or further deliberation of the matters discussed.

Details of the Directors’ attendance at the meetings are presented in the table appearing on page 34 of this Annual Report.

The activities of the Committee included reviewing the effectiveness of the activities of the Project Management Office (PMO) formed for the close monitoring of the progress of the Strategic Plan programme implementation, review of the adequacy of the resources for the achievement of the objectives of the Strategic Plan, and advice/guidance/directions to Management and the PMO personnel to lead and drive the Strategic Plan and resolve key strategic or implementation issues. Based on the presentations made by Messrs Boston Consulting Group, the consultants engaged to assist the Management with various aspects of the Strategic Plan, the Committee reviewed the progress of implementation, discussed key concerns and way forward and provided advice and guidance to the Management for the effective implementation of the programme.

Evaluation of the Committee

The Committee carried out a self-evaluation of the activities of the Committee and was satisfied that the Committee had carried out its responsibilities in a satisfactory manner during the year under review.



Samantha Ranatunga

Chairman – Board Strategic Plan Committee
(Independent Director)

16 February 2018
Colombo

Directors' Statement on Internal Control

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 control mechanism of the Bank.

The Board of Directors ("Board") is responsible for the Bank's system of internal controls and for reviewing its design and effectiveness. However, such a system can only manage rather than eliminate the risk of failure to achieve the business objectives of the Bank. Hence, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of financial information and records.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes modifying the system of internal controls as and when there are changes to business and regulatory environment. The process is reviewed regularly by the Board taking into account principles for the assessment of the internal control system as given in the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka (ICASL). The processes are compliant with the requirements set out in this document.

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

Key features of the process adopted in applying and reviewing the design and effectiveness of the internal control system over financial reporting

The key processes that have been established in reviewing the design and effectiveness and integrity of the system of internal controls with respect to financial reporting are set out below:

- The Board committees established by the Board, assist the Board in ensuring the effectiveness of the Bank's daily operations, that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget and that policies and business directions have been approved as required.
- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Division, the External Auditors, 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 internal audits. The minutes of the Audit Committee meetings are tabled at the Board meeting of the Bank on a periodic basis. The activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on pages 54 to 55.
- Apart from the Audit committee, Board committees have been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Integrated Risk Management Committee, Governance and Compliance Committee, Human Resource and Remuneration Committee, the Nomination Committee, the Credit Committee, the Sustainability Committee, Strategic Plan Committee, the Marketing and Product Development Committee and the Related Party Transactions Review Committee.
- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Asset and Liability Management Committee (ALCO), the Executive Credit Risk Management Committee, the Executive Market and Operational Risk Management Committee, the Executive Crisis Management Committee, the Corporate Management Committee, the Performance Review Committee and the Information Technology Steering Committee.
- The Internal Audit Division of the Bank reviews compliance with policies and procedures and the effectiveness of the internal control systems on an on-going basis using samples and rotational basis and highlights significant findings in respect of non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.

- Policies and procedures to ensure compliance with internal controls and the relevant laws and regulations are set out in operations manuals, guidelines and the directives issued by the Bank which are updated from time to time.
- All controls including the IT general controls and the branch level application controls, were documented by respective departments, based on the formats given in the “Guidance for Directors of Banks on the Directors’ Statement on Internal Control’ in the Sri Lanka Standard on Assurance Engagements 3050, issued by The Institute of Chartered Accountants of Sri Lanka.
- In assessing the internal control system over financial reporting, the Management of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn are observed and checked by the Internal Audit Division for suitability of design and effectiveness on an on-going basis.

The recommendations made by the External Auditors in connection with the internal control system in the financial year ended 31 December 2016 were taken into consideration and appropriate measures were taken to incorporate the recommendations. The recommendations made by the External Auditors in connection with the internal control system for the financial year ended 31 December 2017 will be addressed in the ensuing year.

The Board has also taken into consideration in 2017 the requirements of “Sri Lanka Financial Reporting Standards 9 – Financial Instruments” which is effective for the financial year commencing from 1 January 2018, as it is expected to have significant impact on the impairment of financial instruments of the Bank. A comprehensive assessment of the gaps and expected impact to the Financial Statements as a result of adopting SLFRS 9 was carried out in 2017 with the assistance of an external consultant and the models have been developed to quantify its initial impact on the Financial Statements. Those models will be further tested and implemented in 2018 to incorporate the required adjustments and disclosures in the Financial Statements under SLFRS 9.

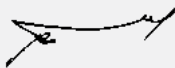
Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) and the regulatory requirements of the Central Bank of Sri Lanka. This confirmation does not include the subsidiary of the Bank.

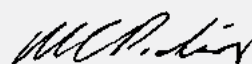
Review of the statement by External Auditors

The External Auditors have reviewed the above Directors’ Statement on Internal Control of the Bank for the year ended 31 December 2017 and reported to the Board that nothing has come to their attention that causes them to believe that the above 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 over financial reporting of the Bank. Their report to the Board is disclosed on page 70 of this Annual Report.

By order of the Board of Directors of
Seylan Bank PLC



W M R S Dias
Chairman



Coralie Pietersz
Chairperson – Board Audit Committee

16 February 2018
Colombo

Auditors' Report on Internal Control



KPMG
(Chartered Accountants)
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Internet : www.kpmg.com/lk

To the Board of Directors of Seylan Bank PLC

We were engaged by the Board of Directors of Seylan Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31 December 2017 set out in pages 68 and 69 in this annual report.

Management's responsibility for the Statement on Internal Control

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

Scope of the engagement in compliance with SLSAE 3050

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

Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- Enquired the directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the directors in the annual report.
- Reviewed the documentation prepared by the directors to support their Statement made.
- Related the Statement made by the directors to our knowledge of the Bank obtained during the audit of the financial statements.
- Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- Attended meetings of the audit committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- Obtained written representations from directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

Our conclusion

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



Chartered Accountants
Colombo

16 February 2018

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan ACA		

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA
Ms. C.T.K.N. Perera ACA

Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company

The Directors of Seylan Bank PLC (hereinafter referred to as “the Board” or “the Directors”) present their Report on the State of Affairs of Seylan Bank PLC (“the Bank” or “the Company”) as published in this Annual Report of the Bank which also consists of the following statements for the financial year ended 31 December 2017:

- the Audited Financial Statements of the Bank
- the Consolidated Financial Statements of the Group and
- the Auditors’ Report on those Financial Statements

This Report hereinafter will also be referred to as “this Report”, “Report of the Directors” or “Report of the Board of Directors”.

This Report and the aforementioned Financial Statements were reviewed and approved by the Board of Directors on 16 February 2018.

The disclosures in this Report conform to the requirements of the Companies Act No. 07 of 2007; the Banking Act No. 30 of 1988 (as amended) and the Directions issued by the Monetary Board under the Banking Act; The Listing Rules of the Colombo Stock Exchange (CSE) and the recommended best practices, e.g., Code of Best Practices on Corporate Governance – 2013, jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka.

Disclosures as required under Section 168 of the Companies Act No. 07 of 2007, in respect of the year 2017 are published in the following pages/sections of this Annual Report.

Section	Information required to be disclosed	Compliance and/or required disclosure – page/s of this Annual Report
168 (1) (a)	The nature of the business of the Bank and the Subsidiary	72 (Item Nos. 3 and 4 of this Report)
168 (1) (b)	Signed Financial Statements of the Bank for the accounting period completed in accordance with Section 152	209 (Financial Statements)
168 (1) (c)	Auditors’ Report on Financial Statements of the Bank and the Group	206 (Independent Auditors’ Report)
168 (1) (d)	Changes in accounting policies made during the accounting period	217 to 243 (Notes to the Financial Statements)
168 (1) (e)	Particulars of the entries in the interests register made during the accounting period	77 (Item No. 24 of this Report)
168 (1) (f)	Remuneration and other benefits of the Directors during the accounting period	246 and 288 (Note 13 and 50 to the Financial Statements)
168 (1) (g)	Total amount of donations made by the Bank during the accounting period	74 and 246 (Item No. 14 of this Report and Note 13 to the Financial Statements)
168 (1) (h)	Information on Directorate of the Bank during and at the end of the accounting period and persons who ceased to hold office as Directors during the accounting period	76 (item No. 21 of this Report)
168 (1) (i)	Amounts payable to the Auditor as audit fees and fees for other services rendered during accounting period as a separate disclosure	80 and 246 (Item No. 41 of this Report and Note 13 to the Financial Statements)
168 (1) (j)	Auditor’s relationship or any interest with the Bank and its subsidiaries	80 (Item No. 41 of this Report)
168 (1) (k)	Annual Report of the Board of Directors on the State of Affairs of the Company signed on behalf of the Board of Directors	80 (Signed with an acknowledgement by three Directors and the Company Secretary – refer end of this Report)

1. Seylan Bank PLC

Seylan Bank PLC is a public limited liability company incorporated in Sri Lanka on 28 August 1987, under the Companies Act No. 17 of 1982. The Bank was re-registered as required under the provisions of the Companies Act No. 07 of 2007, on 30 May 2007 (Company Registration No. PQ 9). The Registered Office and the Head Office of the Bank is situated at “Seylan Towers”, No. 90, Galle Road, Colombo 03.

The Bank has been listed on the Colombo Stock Exchange since 5 January 1989. The Bank's ordinary shares (both voting and non-voting) and its Unsecured, Redeemable Debentures issued in the years 2013, 2014 and 2016 are listed in the CSE. Fitch Ratings Lanka Limited has affirmed the Bank's National Long-term Rating at A-(lka) with a stable outlook and has affirmed the Bank's senior unsecured Debentures at A-(lka) whilst assigning a BBB+(lka) for its subordinated debt.

2. Vision and Mission and Corporate Conduct

2.1 Vision and Mission

Vision:

"To be Sri Lanka's leading financial services provider – as recognised by all its stakeholders."

Mission:

- We provide our customers with financial services that meet their needs in terms of value, pricing, delivery and service.
- We will do so through a team of Seylan Bankers who are recognised and rewarded for results orientation.
- We will ensure that our efforts translate to meeting the expectations of our shareholders, whilst always acting as responsible corporate citizens.

2.2 Corporate Conduct

The Bank conducts its business activities at a high level of ethical standard in achieving its Vision and Mission. The Board of Directors of the Bank as well as its employees have pledged to abide by and comply with the Codes of Conduct and Ethics.

3. Principal activities

The principal activities of the Bank are commercial banking and provision of related financial services which include acceptance of deposits, personal banking, trade financing, offshore banking, resident and non-resident foreign currency operations, travel-related services, corporate and retail credit, margin trading, pawnbroking, project financing, lease financing, rural credit, credit card facilities, money remittance services, factoring, dealing in Government Securities and Treasury-related products, etc.

There were no significant changes in the nature of the principal activities of the Bank and its subsidiary during the financial year under review.

4. Group structure

The only subsidiary of the Bank, Seylan Developments PLC (SDP) is a public limited liability company incorporated in 1992 and listed on the Colombo Stock Exchange. The principal activities of Seylan Developments PLC are property development and management. The Bank held a 70.51% stake in Seylan Developments PLC as at 31 December 2017. Please refer Section 30 of this Report for information on the Board of Directors of SDP.

The Bank received a dividend of LKR 70,424,175.60 paid by the subsidiary during the year under review.

5. Branch network

As at 31 December 2017, the Bank's branch network comprised 166 banking centres and 98 Student Savings Centres, island-wide. Locations and details of the banking centres as at the date of this Report are given on page 306 of this Annual Report.

6. Review of performance in 2017 and future development plans

The Chairman's Message, the Chief Executive Officer's Review and the Bank's Value Creation Story published in this Annual Report provide an overall assessment and review of the operations and financial performance of the Bank during the year 2017 and those reports also speak about the Bank's future development plans.

7. Financial statements and financial reporting

The Bank has adopted the Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards (LKAS/SLFRS) in the preparation of the Financial Statements. Consequently, the necessary quantifications and disclosures have also been made based on LKAS/SLFRS.

The Audited Financial Statements of the Bank and the Group for the financial year ended 31 December 2017 certified by the Chief Financial Officer and the Director/Chief Executive Officer and signed by two Directors in terms of Sections 151, 152 and 168 (l) (b) of the Companies Act No. 07 of 2007 as published in this Annual Report form an integral part of this Report.

8. Directors' responsibility for financial reporting

The Directors are responsible for the preparation of the Financial Statements of the Bank to reflect a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements and the Notes thereto have been prepared in conformity with the requirements of the Companies Act No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 (as amended), the Listing Rules of the Colombo Stock Exchange, the Banking Act Direction No. 11 of 2007 (as amended) on Corporate Governance for Licensed Commercial Banks.

The Statement of Directors' Responsibility for Financial Reporting which appears on pages 203 and 204 of this Annual Report forms an integral part of this Report of the Directors.

9. Auditors' report

The Auditors of the Company, Messrs KPMG, Chartered Accountants have carried out the audit of the Consolidated Financial Statements for the financial year ended 31 December 2017 and their Report on the Financial Statements appears on page 206 of this Annual Report.

10. Significant accounting policies

The significant accounting policies adopted in preparation of the Financial Statements are given on pages 217 to 243 in this Annual Report.

11. Financial results

11.1 Income

The income of the Bank and income of the Group for the year, 2017 is given in the table below. An analysis of the income is given in the Notes to the Financial Statements published in this Annual Report:

Income	2017		2016	
	Bank LKR Bn.	Group LKR Bn.	Bank LKR Bn.	Group LKR Bn.
Gross income (Note 6)	49.338	49.873	37.873	37.913
Operating income	20.939	21.546	17.762	17.813

11.2 Profit and appropriations

A summary of the consolidated financial results of the operations of the Group during the year ended 31 December 2017 is given below:

	2017 LKR '000	2016 LKR '000
Profit before income tax	7,284,923	5,771,245
Less : Income tax	2,281,292	1,736,355
Profit after income tax	5,003,631	4,034,890
Attributable to non-controlling interest	186,797	21,758
Net profit attributable to equity holders	4,816,834	4,013,132
Retained profit brought forward after dividends	13,183,804	10,427,628
Profit available for appropriation	18,000,638	14,440,760
Transfer to reserve fund	(221,520)	(200,523)
Other transfers/adjustments	39,421	64,688
Balance carried forward	17,818,539	14,304,925

12. Taxation

Provision for taxation has been computed as indicated in Note 15 to the Financial Statements.

13. Capital expenditure

The total capital expenditure incurred on the acquisition of property, plant and equipment of the Bank and the Group during the year is given in Notes 29, 30 and 32 to the Financial Statements.

Capital expenditure approved and contracted for after the year ended 31 December 2017 is also given in Note 47 to the Financial Statements.

13.1 Acquisition of property, plant and equipment, leasehold rights and intangible assets

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Acquisition of property, plant and equipment, leasehold rights and intangible assets	861,584	850,209	884,211	851,674

13.2 Freehold properties

The net book values of freehold properties owned by the Bank and the Group as at the end of the financial year are given below:

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
The net book values of freehold properties owned by the Bank and the Group	1,589,415	2,537,191	4,064,234	4,161,652

All freehold land and buildings of the Bank were valued by professionally qualified independent valuers/ Panel of Chartered Valuers/Licensed Surveyors in 2016 and brought into the Financial Statements. Details of freehold properties owned by the Bank are given in Note 29 to the Financial Statements.

14. Donations

During the year, the Bank made donations amounting to LKR 3,535,000.00 (Donations made in 2016 amounted to LKR 12,700,000.00).

15. Recommendation of ordinary dividend and solvency certification

The Directors have recommended a first and final ordinary dividend of LKR 3.50 per share (both ordinary voting and ordinary non-voting) for the year ended 31 December 2017. The dividend of LKR 3.50 per share will consist of LKR 1.00 per share in the form of a cash dividend and LKR 2.50 per share in the form of a scrip dividend. This recommendation is subject to the approval of the shareholders at the Annual General Meeting of the Bank scheduled to be held on 29 March 2018 and upon such approval, the dividend will be issued to the shareholders registered as at 29 March 2018 (entitlement date). Please refer the enclosed "Circular to Shareholders" for further details .

The Board of Directors was satisfied that the Bank would meet the solvency test in terms of the provisions of Section 57 of the Companies Act No. 07 of 2007 immediately after the proposed dividend. A certificate of solvency has also been obtained by the Bank from the External Auditors in compliance with Section 56 (2) of the Companies Act, confirming the Board's declaration of solvency.

The Bank paid a first and final ordinary dividend of LKR 3.25 per share for the financial year ended 31 December 2016 on 31 March 2017. The dividend of LKR 3.25 per share consisted of LKR 1.00 per share in the form of a cash dividend and LKR 2.25 per share in the form of a scrip dividend.

16. Reserves

Total reserves (including Statutory Reserve Fund) as at the end of the financial year, are as follows:

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Total reserves (including Statutory Reserve Fund)	22,977,654	17,242,558	24,598,704	18,490,550

17. Stated capital

The Stated Capital of the Bank as at 31 December 2017 was LKR 11,228,268,876.20.

17.1 Shareholdings

The shareholding of the Bank is given in the table below:

Class of shares	2017	2016
	Number of shares	Number of shares
Ordinary voting shares	179,613,669	175,977,401
Ordinary non-voting shares	174,842,437	168,983,009

As at 31 December 2017, the number of registered shareholders of the Bank included 9,047 ordinary voting shareholders and 6,688 ordinary non-voting shareholders.

17.2 Public Holding

The Bank complied with public holding requirement as per the Rules of the Colombo Stock Exchange throughout the year and the status as at 31 December 2017 was as follows:

	As at 31 December 2017			Percentage (%) as at 31 December 2016
	Shareholders	Shares	Percentage (%)	
Ordinary voting shares	9,031	97,512,422	54.29	54.27
Ordinary non-voting shares	6,682	97,815,061	55.94	55.97

17.3 Analysis of the shareholding distribution and major shareholders

An analysis of the distribution of shareholdings and lists of twenty largest ordinary voting and ordinary non-voting shareholders of the Bank as required in the Rules of the Colombo Stock Exchange are provided on pages 302 to 303 of this Annual Report.

18. Debentures

No new debentures were issued during the year 2017. As at 1 January 2017, the Bank had issued and allotted Listed Debentures to the value of LKR 12,134,870,000.00. Particulars of these debentures are given on page 305 of this Annual Report.

18.1 Proposed debenture issue

The Board of Directors at the meeting held on 25 August 2017 approved that the Bank proceed with a public issue of sixty million (60,000,000) fully paid, Basel III Compliant, Tier 2, Listed, Rated Unsecured Subordinated Redeemable Debentures with a non-viability conversion in compliance with Basel III requirements to be converted to ordinary voting shares by the Bank upon the occurrence of a Trigger Event (as defined in the Banking Act Direction No. 1 of 2016), at a par value of LKR 100.00 with an option to issue up to a further forty million (40,000,000) of said debentures in the event of an over subscription at the discretion of the Bank and in such event, the maximum issue of said debentures totalling to hundred million (100,000,000) will be offered by the Bank to qualified investors (as defined in Section 2.2.1-I of the Rules of the Colombo Stock Exchange).

A special resolution was passed by the shareholders approving the said issue at the Extraordinary General Meeting held on 15 February 2018. Further, an application has been made to the Colombo Stock Exchange to list the said debentures on the Trading Floor of the Colombo Stock Exchange upon allotment and also for the listing of the ordinary voting shares that may be issued upon the occurrence of a Trigger Event.

19. Investors' information

Information including earnings, profitability, dividend, net assets and market value per share is given under financial highlights of this Annual Report. Information pertaining to share prices and debenture prices is given in this Annual Report on page 304.

20. Equitable treatment of shareholders

The Bank has at all times ensured the equitable treatment of its shareholders.

21. Directorate

21.1 Directors who held office as at 31 December 2017

Name of Director	Status of directorship
Mr W M R S Dias	Non-Executive Director/Chairman
Mr I C Nanayakkara	Non-Executive Director/Deputy Chairman
Ms M C Pietersz	Independent Non-Executive Director/Senior Director
Mr K P Ariyaratne	Director/Chief Executive Officer
Rear Admiral B A J G Peiris	Independent Non-Executive Director
Mr S P S Ranatunga	Independent Non-Executive Director
Mr W D K Jayawardena	Non-Executive Director
Mr P L S K Perera	Independent Non-Executive Director
Mr S V Corea	Non-Executive Director
Mr A S Wijesinha	Independent Non-Executive Director
Mrs S K Salgado	Independent Non-Executive Director

The profiles of the Directors who were on Board as at the date of this Report including their membership/s in Board subcommittees are given on pages 19 to 22 of this Annual Report.

21.2 Change of directorate

There were no changes to the Board of Directors during the year 2017.

Independent Director, Rear Admiral Baminahennadige Ananda Jayalal Gurukula Peiris retired from the Board with effect from 8 January 2018 upon completion of nine years of service on the Board, in compliance with the Section 3 (2) (ii) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (as amended).

21.3 Declarations by Directors – Independent/Non-independent status and declaration of relevant relationships

All Non-Executive Directors have submitted signed declarations confirming their independent/non-independent status in compliance with Section 7.10.2 and 7.10.4 of the Rules of the Colombo Stock Exchange as well as with Sections 3 (2) (iv) of the Banking Act Direction No. 11 of 2007.

The declarations also confirmed in terms of Section 3 (5) (iii) of the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka (CBSL) that there were no relationship [including financial, business, family or other material/relevant relationship(s)], neither between the Chairman and the Chief Executive Officer nor amongst the members of the Board other than the fact that Non-Executive Director/Chairman, Mr W M R S Dias and Non-Executive Director, Mr S V Corea are Directors nominated to the Board by the Bank's material shareholder, Sri Lanka Insurance Corporation Limited and that Non-Executive Director/Deputy Chairman, Mr I C Nanayakkara and Non-Executive Director, Mr W D K Jayawardena represent the material shareholders, LOLC Investments Limited and Brown & Company PLC and hold common directorships in several entities, including Brown & Company PLC and LOLC PLC, the holding company of LOLC Investments Limited.

21.4 Declarations by Directors – “Fit and Proper” status of continuing Directors

Signed affidavits and declarations in terms of Section 42 of the Banking Act (as amended) have also been submitted by the Directors to the Central Bank of Sri Lanka declaring their “Fit and Proper” status to hold/continue in office as Directors of the Bank.

21.5 List of directorships of the Directors in other entities

List of directorships as at 31 December 2017 held by the Directors in other entities and their substantial/material shareholdings if any, are provided in the annexure to this Report. The list also identifies the status of directorship (executive/non-executive/independent status) and the status where an entity is a listed entity as recommended in the Code of Best Practice on Corporate Governance – 2013.

22. Recommendations for re-election of Directors

In terms of Article 82 of the Articles of Association, Non-Executive Director/Deputy Chairman, Mr I C Nanayakkara and Independent Directors, Mr S P S Ranatunga and Mr P L S K Perera retire by

rotation at the forthcoming Annual General Meeting (AGM) of the Bank and offer themselves for re-election pursuant to the Board Nomination Committee and the Board of Directors evaluating and recommending their re-election as Directors.

23. Meetings of the Board of Directors

Twelve regular monthly meetings and seven special meetings were held during the year. The special meetings were held to consider and decide on important and urgent issues, five of which were held with adequate notice. Schedules of Directors' attendance at Board meetings at the twelve regular meetings and the said five special meetings and Directors' attendance at Board subcommittee meetings are presented under the Corporate Governance Report in this Annual Report on pages 32 and 34.

24. Directors' interest in contracts and Directors' interests register

The Bank maintains a Directors' Interest Register as required under Section 168 (1) (e) of the Companies Act No. 07 of 2007. The Directors submit their signed declarations to the Board through the Company Secretary disclosing their interests in contracts from time to time in accordance with Section 192 (2) of the Companies Act No. 07 of 2007. Such disclosures are reported to the Board and minuted by the Company Secretary and thereafter recorded in the Directors' Interests Register. The Directors' Interests Register is available for inspection by the shareholders or their authorised representatives as required under Section 119 (1) (d) of the Companies Act No. 07 of 2007.

The Directors abstained from the meetings (both Board and Board subcommittees) when matters in which they were interested (related party interest or directorship interest) were considered and they did not vote on such matters.

25. Directors' interest in shares and debentures of the Bank

Directors' holdings in shares and debentures of the Bank as at 31 December 2017 are given below:

Name of Director	31.12.2017	31.12.2016	Shares/debentures of par value: LKR 100.00
Mr W M R S Dias	Nil	Nil	-
Mr I C Nanayakkara	Nil	Nil	-
Ms M C Pietersz	Nil	Nil	-
Mr K P Ariyaratne	37,275	36,521	Ordinary voting shares
	139,681	125,000	Ordinary non-voting shares
	30,000	30,000	Debentures 2013-2018 – annual interest
	10,000	10,000	Debentures 2013-2018 – semi-annual interest
	32,700	32,700	Debentures 2016 – semi-annual interest
Rear Admiral B A J G Peiris (Retired w.e.f. 08.01.2018)	Nil	Nil	-
Mr S P S Ranatunga	Nil	Nil	-
Mr W D K Jayawardena	Nil	Nil	-
Mr P L S K Perera	Nil	Nil	-
Mr S V Corea	Nil	Nil	-
Mr A S Wijesinha	Nil	Nil	-
Mrs S K Salgado	Nil	Nil	-
Percentage shareholding of Directors:			
Ordinary voting shares	0.02%	0.02%	
Ordinary non-voting shares	0.08%	0.07%	

No change occurred in the Directors' interest in shares and debentures after 31 December 2017 and before the date of this Report of the Board of Directors.

26. Directors' remuneration

Details of Directors' emoluments paid in respect of the Bank and the Group for the year 2017 are given in Note 13 to the Financial Statements in this Annual Report in terms of Section 168 (1) (f) of the Companies Act No. 07 of 2007.

27. Insurance and indemnity

As authorised by the Articles of Association of the Bank and as approved by the Board of Directors, the Bank obtained a Directors and Officers Liability Insurance Cover in respect of the year 2017/18.

28. Board subcommittees

The Board is empowered by the Articles of Association to delegate any of its powers to the Board appointed subcommittees within the scope of the respective Board approved Terms of Reference. The subcommittees consist of such member or members appointed as the Board thinks fit subject to meeting the criteria specified in the respective Terms of Reference. The following Board subcommittees were functional as at 31 December 2017:

- Board Audit Committee
- Board Integrated Risk Management Committee
- Board Human Resources and Remuneration Committee
- Board Nomination Committee
- Board Credit Committee
- Board Sustainability Committee
- Board Marketing and Product Development Committee
- Board Governance and Compliance Committee
- Related Party Transactions Review Committee
- Board Strategic Plan Committee

Reports of these Board subcommittees are published on pages 54 to 67 of this Annual Report.

29. Related party transactions

The Board of Directors has vested the responsibility for ensuring compliance with Section 9 of the Rules of the Colombo Stock Exchange (CSE) and the SEC Code on Related Party Transactions, to the Related Party Transactions Review Committee of the Bank. During the year, the Bank did not carry out any related party transaction which required shareholder approval and/or disclosure required in terms of Rule 9.3.1 and 9.3.2 of the CSE Rules.

30. Directorate of the subsidiary, Seylan Developments PLC

The Board of the Bank's subsidiary, Seylan Developments PLC as at 31 December 2017 comprised six Directors, all of whom were Non-Executives, namely, Messrs K P Ariyaratne (Chairman), S Palihawadana (Deputy Chairman), R J Jayasekara, P D Hennayake, P Saravanapavan and L T Kiringoda. Mr P Saravanapavan and Mr L T Kiringoda are Independent Non-Executive Directors. The other four Directors were deemed not independent since they were employees of the Bank.

31. Human resources

The Board Human Resources and Remuneration Committee has been vested with the responsibility to assist the Board in fulfilling its role and responsibilities involving human resources and remuneration of the Directors Key Management Personnel and all employees of the Bank.

During the year, the Board categorically emphasised the overall implementation of the Human Resource (HR) strategic initiatives, as part of the Bank's Strategic Plan 2017–2020 which also focused on performance-based rewards, transformation of general banking job roles into new business channels and relationship management, competency development of staff and lean structures through a scientific business process re-engineering to establish and sustain a performance driven culture in the Bank.

32. Corporate governance

The Board of Directors has pledged its commitment towards maintaining an effective corporate governance framework and practices within the Bank to enhance business prosperity and corporate accountability. The Bank has established systems and procedures to ensure that they are adequately and practically adopted and followed.

The extent of compliance with the directions, rules and best practice guidelines are described in the Corporate Governance Report appearing on pages 30 to 53.

The External Certification of the Bank's compliance with the Central Bank is Code of Corporate Governance (namely, the Banking Act Direction No. 11 of 2017) performed in line with agreed upon procedures set out in Sri Lanka Related Services Practice Statement (SLRSPS 4750) and was provided by the Bank's External Auditors, Messrs KPMG.

33. Risk management and system of internal controls

33.1 Risk management

The Board has ensured the implementation of a sound risk management framework by means of an ongoing process to identify, evaluate and manage the risks that are faced by the Bank. The Board Integrated Risk Management Committee is vested with this responsibility. The Chief Risk Officer reports and updates the status of the Bank's overall risks to the Committee at its regular quarterly meetings. The Report of the Board Integrated Risk Management Committee is given on pages 59 to 60 of this Annual Report whilst a detailed Risk Management Report of the Bank is given on pages 84 to 116.

33.2 System of internal control

The Board acknowledges its responsibility for the Bank's internal control framework for ensuring identification, assessment and mitigation of risks, safeguarding the Bank's assets, compliance with all applicable regulations and statutes and protecting the interest of all stakeholders. A robust internal controls framework is indispensable for achieving the Bank's business objectives in a manner that is efficient, effective, value adding and socially responsible. Effectiveness of the internal controls system is a key decisive factor for the sustainability of the Bank in the long run in terms of market share, service quality and profitability.

The internal control framework of the Bank consists of carefully designed business process, underlying computer software applications, organisational structures, duly approved delegated authority levels and formally documented procedures, instructions and guidelines etc.

The Directors confirm the existence of an effective system of internal controls for managing the risks faced by the Bank by taking timely risk mitigation actions and the operational effectiveness of such internal controls, which had been in place throughout the year under review up to the date of approval of this Annual Report and constantly reviewed.

34. Compliance with laws and regulations

The Bank has not engaged in any activities contravening any laws and regulations currently in force. Key Management Personnel confirm compliance with various laws and regulations and their confirmations are reported to the Board on a monthly basis by the Compliance Officer.

35. Outstanding litigation

In the opinion of the Directors and external legal counsels retained by the Bank, litigations currently pending against the Bank as disclosed in Note 46 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

36. Employees' share owning scheme

Six employee share ownership trust companies ("companies") were established by the Bank in 1995 and in 1999/2000 which have acquired shares of the Bank from time to time at the market prices prevailing at that time. The Bank was the settlor of the trusts and the purchase of the shares were fully funded by the Bank. These companies currently hold a total of 13,016,509 shares of the Bank's ordinary (voting) shares. The details of the facilities granted by the Bank to these companies for the purchase of such shares are provided in Note 50 to the Financial Statements.

The shares held by the said companies are the subject matter of court actions, the details of the litigation filed against the Bank and the six Employee Share Ownership Trust Companies by certain former employees of the Bank are provided in Note 45 to the Financial Statements. In view of these Court actions the Bank has not taken any action in respect of Section 5.6.10 of the Listing Rules of the Colombo Stock Exchange as at the date of this Report.

37. Environmental protection

The Bank has not engaged in any activity that is harmful or hazardous to the environment. Measures taken by the Bank on environmental protection and its sustainability are detailed in this Annual Report on pages 196 to 198.

38. Statutory payments

The Directors are satisfied that all statutory payments including all taxes, duties and levies payable by the Bank and its Subsidiary, to the Government, regulatory institutions and related to the employees have been made or where relevant provided for.

39. Events after the reporting date

No events have occurred after the reporting date which would require adjustments to or disclosure in the Financial Statements, other than those given in Note 49 to the Financial Statements.

40. Going concern

The Directors are satisfied that having considered the financial position, operating conditions, regulatory and other factors and such other matters required to be addressed in the Corporate Governance Code, that the Bank has adequate resources to continue its operations in the foreseeable future. The Financial Statements of the Bank have accordingly been prepared on a going concern basis.

41. Auditors

The Bank's Auditors during the period under review were Messrs KPMG, Chartered Accountants. Audit fees and consolidated audit fees payable/paid are as follows:

	2017 LKR'000	2016 LKR'000
Audit fees		
Audit service fees for the year under review	9,288	8,843
Audit-related fees	9,820	5,522
Non-audit fees	3,240	1,080
Consolidated audit fees		
Audit service fees for the year under review	10,314	9,856
Audit-related fees	9,820	5,522
Non-audit fees	3,263	1,175

Based on the declaration made by Messrs KPMG and as far as the Directors are aware, the Auditors do not have any relationship with or interest in the Company or its subsidiary other than the provision of audit and non-audit and related services as listed above.

The retiring Auditors, Messrs KPMG have expressed their willingness to continue in office and a resolution to reappoint them as Auditors and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

42. Independence of the Auditors

Based on an assessment carried out by the Board Audit Committee upon adoption of a policy for the engagement of Auditors, the Board is of the opinion that the External Auditors, Messrs KPMG can be deemed to be independent for all intents and purposes considering the following factors:

- No partner from the Firm is on the Board of the Bank or on the Board of its subsidiary.
- The audit and non-audit fees are negotiated and are not above industry norms.
- The firm had the necessary skills to competently carry-out the non-audit related assignments entrusted to them.
- The Auditors do not receive fees from other assignments except as stated above.
- Partner and audit-team rotation was complied with in 2014.
- Messrs KPMG is a firm of high repute.

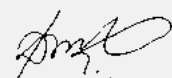
43. Notice of Annual General Meeting

Notice of meeting relating to the Thirty First (31st) Annual General Meeting of the Bank scheduled to be held on 29 March 2018 at 10.00 am at Samudra Ballroom, Taj Samudra Hotel, 25, Galle Face Centre Road, Colombo 03 is circulated to the shareholders with this Annual Report.

We, the undersigned acknowledge the contents of this Report and its Annexure and have placed our signatures for and on behalf of the Board of Directors of Seylan Bank PLC, at Colombo, this 16th day of February 2018.



W M R S Dias
Chairman



Ishara Nanayakkara
Deputy Chairman



Kapila Ariyaratne
Director/Chief Executive Officer



(Mrs) N N Najumudeen
Company Secretary

Annexure to the Report of the Board of Directors on the State of Affairs of the Company

Directors interests register and Directors' interest in transactions as at 31 December 2017

The Bank carries out transactions in the ordinary course of business at commercial rates with entities in which a Director of the Bank is the Chairman or a Director of such entities. Please refer Note 50 to the Financial Statements on page 288 for information on related party transactions.

The entities in which the Directors of the Bank held directorships and substantial shareholdings as at the above date are disclosed below:

Entity	Directorships (Executive/ Non-Executive status)	Substantial shareholding % (Direct), (if any)
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Mr W M R S Dias (Non-Executive Director/Chairman)

Listed entities

1. Carson Cumberbatch PLC	Non-Executive Director*	-
2. Senkadagala Finance PLC	Non-Executive Chairman*	-
3. Tokyo Cement Co (Lanka) PLC	Non-Executive Director*	-

Unlisted entities

4. Ceylon Tea Marketing (Pvt) Limited	Non-Executive Director*	-
5. South Asia Textiles Limited	Non-Executive Director*	-

* Independent Director

Mr I C Nanayakkara (Deputy Chairman/Non-Executive Director)

Listed entities

1. Agstar Fertilizers PLC	Non-Executive Director	-
2. BRAC Lanka Finance PLC	Non-Executive Chairman	-
3. Brown & Company PLC	Executive Chairman	-
4. Browns Investments PLC	Executive Chairman	-
5. LOLC Finance PLC	Executive Deputy Chairman	-
6. Lanka ORIX Leasing Company PLC	Deputy Chairman/ Executive Director	19.28%

Unlisted entities

7. Associated Battery Manufacturers (Cey) Limited	Non-Executive Director	-
8. B Commodities ME FZE	Non-Executive Director	-
9. Churchill Capital (Pvt) Limited	Executive Director	100%
10. Ishara Traders (Pvt) Limited	Non-Executive Director	-
11. LOLC Asia (Pvt) Limited	Non-Executive Director	-
12. LOLC International (Pvt) Limited	Non-Executive Director	-
13. LOLC Life Assurance Limited	Non-Executive Chairman	-
14. LOLC Myanmar Microfinance Co. Limited	Non-Executive Director	-
15. LOLC (Pvt) Limited	Non-Executive Director	-
16. Oxford Capital (Pvt) Limited	Non-Executive Director	-
17. Pak Oman MFB	Non-Executive Director	-
18. PRASAC Micro Finance Institution	Non-Executive Director	-
19. Sierra Constructions Limited	Non-Executive Director	-
20. Medford Investments (Pvt) Limited	Shareholder	25.00%

Ms M C Pietersz (Independent Director/Senior Director)

Listed entities

1. Bogala Graphite Lanka PLC	Non-Executive Director*	-
2. Hapugastenna Plantations PLC	Finance Director	-
3. Udapussellawa Plantations PLC	Finance Director	-

* Independent Director

Entity	Directorships (Executive/ Non-Executive status)	Substantial shareholding % (Direct), (if any)
Unlisted entities		
4. Finlay Airline Agencies (Pvt) Limited	Executive Director	-
5. Finlay Cold Storage (Pvt) Limited	Executive Director	-
6. Finlays Colombo Limited	Finance Director	-
7. Finlay Insurance Brokers (Pvt) Limited	Executive Director	-
8. Finlays Linehaul Express (Pvt) Limited	Executive Director	-
9. Finlay Plantation Management (Pvt) Limited	Executive Director	-
10. Finlay Properties (Pvt) Limited	Executive Director	-
11. Finlay Rentokil Ceylon (Pvt) Limited	Executive Director	-
12. Finlay Teas (Pvt) Limited	Executive Director	-
13. Finlay Tea Estates Lanka (Pvt) Limited	Executive Director	-
14. Finlay Tea Solutions Colombo (Pvt) Limited	Executive Director	-
15. James Finlay Plantation Holdings (Lanka) Limited	Executive Director	-

Mr K P Ariyaratne (Director/Chief Executive Officer)

Listed entities

1. Seylan Developments PLC	Chairman/ Non-Executive Director	-
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Unlisted entities

2. Esots (Pvt) Limited	Non-Executive Chairman	-
3. Lanka Financial Services Bureau Limited	Non-Executive Director	-
4. Sesot (Pvt) Limited	Non-Executive Chairman	-
5. Seyshop (Pvt) Limited	Non-Executive Chairman	-
6. Seybest (Pvt) Limited	Non-Executive Chairman	-
7. Seyfest (Pvt) Limited	Non-Executive Chairman	-
8. Sotse (Pvt) Limited	Non-Executive Chairman	-

Rear Admiral B A J G Peiris (Independent Director)

(Retired from the Board with effect from
8 January 2018)

No directorships	-
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Mr S P S Ranatunga (Independent Director)

Listed entities

1. CIC Holdings PLC	Managing Director/CEO	-
2. Chemanex PLC	Non-Executive Director	-

Unlisted entities

3. Akzo Nobel Paints Lanka (Pvt) Limited	Non-Executive Director	-
4. CIC Agribusiness (Pvt) Limited	Non-Executive Director	-
5. CIC Agri Produce Export (Pvt) Limited	Non-Executive Director	-
6. CIC Agri Produce Marketing (Pvt) Limited	Non-Executive Director	-
7. CIC Dairies (Pvt) Limited	Non-Executive Director	-
8. CIC Feeds (Pvt) Limited	Non-Executive Director	-
9. CIC Grains (Pvt) Limited	Non-Executive Director	-
10. CIC Lifesciences Limited	Non-Executive Director	-
11. CIC Poultry Farms Limited	Non-Executive Director	-
12. CIC Precision Agricultural Technologies (Pvt) Limited	Non-Executive Director	-
13. CIC Seeds (Pvt) Limited	Non-Executive Director	-
14. CIC Vetcare (Pvt) Limited	Non-Executive Director	-
15. CISCO Speciality Packaging (Pvt) Limited	Managing Director	-
16. Commercial Insurance Brokers (Pvt) Limited	Non-Executive Director	-
17. Cropwiz (Pvt) Limited	Non-Executive Director	-
18. Link Natural Products (Pvt) Limited	Non-Executive Director	-
19. Unipower (Pvt) Limited	Non-Executive Director	-

Entity	Directorships (Executive/ Non-Executive status)	Substantial shareholding % (Direct), (if any)
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Mr W D K Jayawardena (Non-Executive Director)

Listed entities

1. BRAC Lanka Finance PLC	Non-Executive Director	-
2. Browns Capital PLC	Non-Executive Chairman	-
3. Brown & Company PLC	Non-Executive Director	-
4. Browns Investments PLC	Non-Executive Director	-
5. Eden Hotel Lanka PLC	Non-Executive Chairman	-
6. Lanka ORIX Leasing Co PLC	Managing Director/CEO	-
7. Palm Garden Hotels PLC	Non-Executive Chairman	-

Unlisted entities

8. Browns Advanced Technologies (Pvt) Limited	Non-Executive Director	-
9. LOLC General Insurance Limited	Non-Executive Director	-
10. LOLC International (Pvt) Limited	Non-Executive Director	-
11. LOLC Securities Limited	Non-Executive Chairman	-
12. Riverina Resort (Pvt) Limited	Non-Executive Director	-

Mr P L S Kumar Perera (Independent Director)

No directorships -

Mr S V Corea (Non-Executive Director)

No directorships -

Mr Anushka S Wijesinha (Independent Director)

Unlisted entities

1. BizEx Consulting (Pvt) Limited	Executive Director	-
2. FairFirst Insurance Limited	Non-Executive Director*	-
3. HNB Grameen Finance Limited	Non-Executive Director*	-

* Independent Director

Mrs Sandya K Salgado (Independent Director)

Unlisted entities

1. Film Island (Pvt) Limited	Non-Executive Director	18.33%
2. Jigsaw International (Pvt) Limited	Executive Director	33.31%
3. WAD International (Pvt) Limited	Non-Executive Director	16.66% (indirect)
4. The Drug Shop	Partner	50% (partnership)

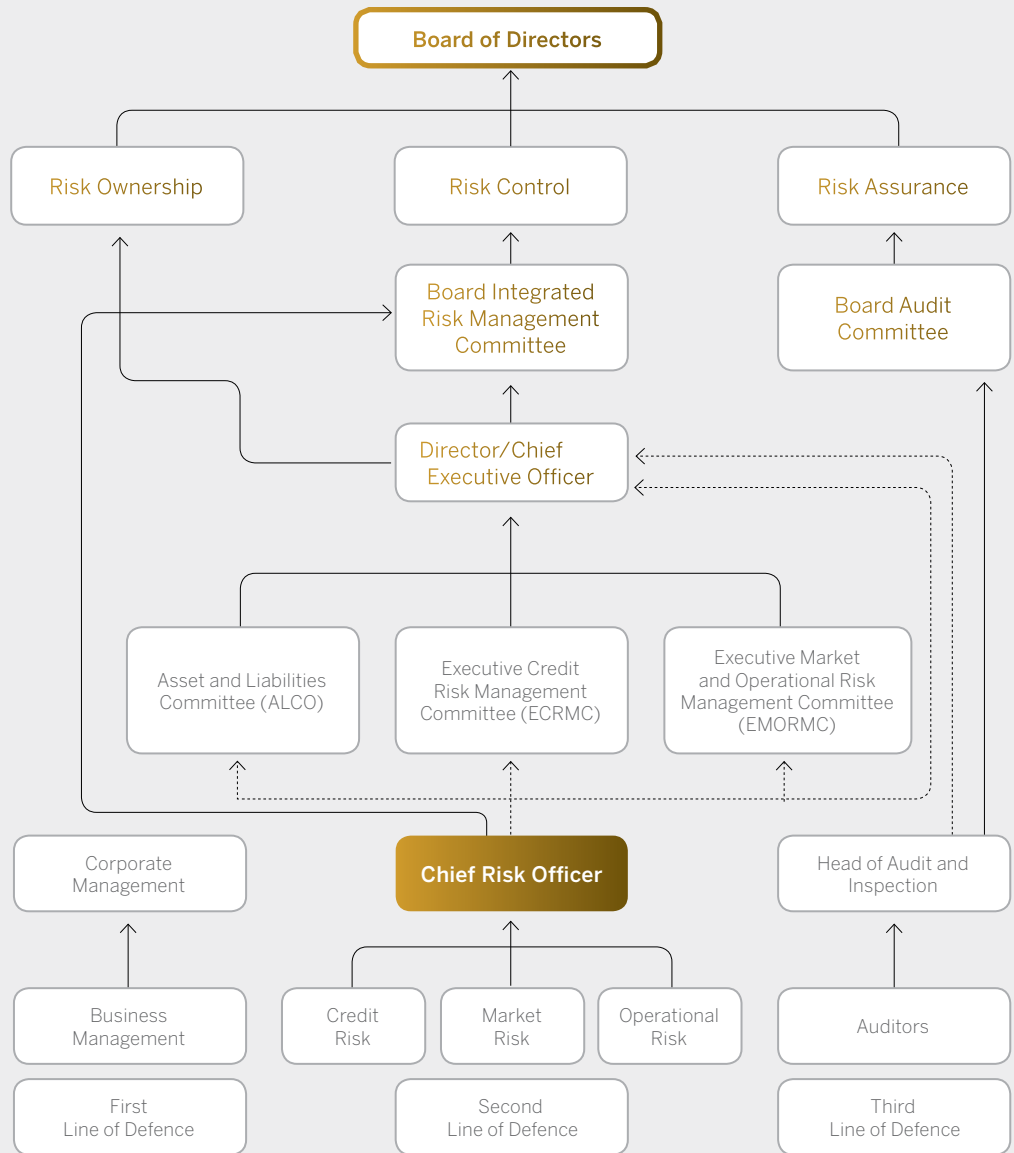
How We Manage Risks

The preceding report on how the Bank manages its overall risk includes the following Pillar-III disclosure requirements as mandated by the Central Bank of Sri Lanka

Pillar – III Disclosures	Page Nos.
1. Risk management and governance structure	85
2. Risk appetite framework	86
3. Risk appetite statement and tolerance limits for key types of risk	86
4. Strategies and processes to manage and mitigate risk	90,100 and 107
5. Stress testing	94 and 101
6. Credit risk management <ul style="list-style-type: none"> • Function of credit risk management • Credit rating and measurement • Credit evaluation and approval process • Credit risk qualitative and quantitative disclosures 	87 – 95
7. Market risk management <ul style="list-style-type: none"> • Interest rate risk • Foreign exchange risk • Equity risk • Interest rate in the Banking book • Liquidity risk and funding management 	96 – 103
8. Operational risk management <ul style="list-style-type: none"> • Operational risk monitoring technique • Outsourcing activities 	103 – 109
9. Current and future capital planning	111– 113
10. Regulatory requirements on capital and liquidity <ul style="list-style-type: none"> • Key regulatory ratios – Capital and liquidity (Table) • Basel III computation of capital ratios (Table) • Basel III computation of leverage ratio (Table) • Basel III computation of liquidity coverage ratio (Table) • Main features of regulatory capital instruments (Table) 	110 109 110 101 113
11. Risk weighted assets (RWA) <ul style="list-style-type: none"> • Credit risk under standardised approach: Credit risk exposures and credit risk mitigation (CRM) effects (Table) • Credit risk under standardised approach: Exposures by asset classes and risk weight (Table) • Market risk under standardised Measurement Method (Table) • Operational risk under basic indicator approach (Table) 	95 95 97 107
12. Linkages between financial statements and regulatory exposures <ul style="list-style-type: none"> • Differences between accounting and regulatory scopes and mapping of Financial Statement categories with regulatory risk categories – Bank only (Table) • Explanations of differences between accounting and regulatory exposure amounts 	115 116

Integrated Risk Management and Governance Structure

Risk management in Seylan Bank comprises Three Lines of Defence. The Director/Chief Executive Officer has delegated responsibility for managing all risks to business managers within stipulated risk limits (1st Line of Defence). Risk management across the entire Organisation has been assigned to an independent Chief Risk Officer (2nd Line of Defence). The internal and external audit provides the risk assurance (3rd Line of Defence). Seylan Bank’s Board has established two Board committees supported by three executive management committees to oversee risk management as shown on the following chart:



At Seylan Bank, having understood that risk management is an essential component of growth, we have developed risk management policies and procedures that are applied across the Bank to assist the business units in their daily interaction with customers. The regulator recommended risk framework is in place to manage the risk on an integrated basis and monitor developments in real time to provide the right level of information to the attention and action of Integrated Risk Management Committees.

As per Pillar II, we prepare and submit the findings of Internal Capital Adequacy Assessment Process (ICAAP) in order to go beyond management of key risks, namely Credit, Market and Operational. We also use tools such as VaR, stress testing and other simulations within approved threshold limits to contain risks. The entire risk management function is carried out with defined roles and responsibilities and have the oversight of the Board of Directors. IT systems are constantly upgraded to facilitate the risk management process, whilst regular training and communication takes

place to create a risk management culture across the Bank. We are ready to implement alternative standardised approach in computing capital on operational risk and certainly geared to adhere to new guidelines introduced by the regulator. We also have developed a dashboard to monitor and report comprehensive overall view of risk with given targets and thresholds to manage risk within the approved appetite and tolerance levels.

Risk appetite elements

Risk appetite framework
The definition of risk appetite is the first step in the Risk Appetite Framework (RAF) process. While the Risk Management Unit defines and proposes the Appetite and Tolerance Limits, the Board of Directors is responsible for approving the risk appetite and has the overall responsibility to ensure that the most significant risks are properly managed.

The Bank sets risk tolerance limits for its key risk indicators pertaining to credit risk, market risk and liquidity, and operational risk.

Seylan Bank's risk appetite incorporates, at minimum, the following dimensions:

Bank wide (target credit rating, capital adequacy, profitability and growth).

Credit risk (NPL ratio, increase/decrease in NPL, overdraft without limits, large exposures to core capital, specific provision cover to Gross NPL, watch list to performing advances, related party lending to core capital, geographical and industry concentration).

Market risk (Maturity Gaps – less than one year net gap percentage of liabilities, Government Securities to total assets, market value of equity investments to total assets, net open position, interest rate risk in the Banking book).

Liquidity risk (Statutory liquidity ratio for domestic and foreign currency, advances to deposits ratio in domestic and foreign currency, advances to deposit ratio – Banks, Swaps, external borrowings in domestic currency).

Operational risk (Pawning operational losses as percentage of pawning capital outstanding, non-rectified high risk audit finding over total high risk audit findings, cheque returns as a percentage of total cheques in clearing, number of skimming cards and non-EMV converted POS transactions etc.)

Compliance to CBSL guidelines, all banking regulatory requirements and Reputational risk.

Risk Appetite Statement (comprising key credit, market, liquidity and operational indicators)

Risk type	Tolerance limit 2017 %	December 2017 %	December 2016 %	Low	Medium	High
Credit risk						
1. Gross NPA ratio (as per CBSL)	3.5	4.83	5.14		○	
2. Gross NPA ratio (Net of IIS as per CBSL)	2.5	4.42	4.47		○	
3. Overdue + NPA/total advances	10	14.88	12.67		○	
4. Specific provision/gross NPL	35	21.60	19.00		○	
5. Watch list/total performing advances	6.5	10.56	7.94		○	
6. Performing overdrafts without limits (Mn.)	750	764	843		○	
7. Large exposure/core capital	6 times	5.91	5.74	○		
8. Exposure on related parties/core capital	Max of 55	27.76	29.44	○		
9. Open credit exposure	17.50	26.27	25.35		○	
Market risk						
10. Maturity gap less than one year to total liabilities	Less than 25	3.55	-22.74	○		
11. Government Securities to total assets (Int. bearing)	Less than 30	21.79	20.59	○		
12. Market value of equity investments (quoted) to total assets (Int. bearing)	Less than 1	0.06	0.08	○		
13. Net open position short (-)/Long(+) (USD) (Mn.)	8 Mn.	-0.134	2.406	○		

Risk type	Tolerance limit 2017 %	December 2017 %	December 2016 %	Low	Medium	High
Liquidity risk						
14. Statutory liquidity ratio Domestic Banking Unit	> 21	23.57	22.68	○		
15. Statutory liquidity ratio Foreign Currency Banking Unit	> 21	37.08	26.24	○		
16. Advances to Deposits Ratio – Bank	< 97.50	93.28	88.52	○		
17. Advances to Deposits Ratio – LCY	< 97.50	94.34	90.43	○		
18. Advances to Deposits Ratio – FCY	< 97.50	84.76	70.90	○		
19. Advances to Deposits + Debentures	< 95.00	89.64	84.66	○		
20. Advances to Stable Funds	< 100.00	87.69	88.50	○		
21. SWAPs (USD)	Not exceed 175 Mn.	110.50	91.00	○		
22. External borrowing (LKR)	Not exceed 40 Bn.	24	17	○		
Operational risk						
23. Pawning operational losses as percentage of pawning average capital outstanding	0.25%	Nil	Nil	○		
24. Cheque returns as percentage of total cheques in clearing	3	4.29	3.40		○	
25. Non-rectified high risk findings (< 90 days) over total high risk audit findings (%)	Zero	3.13	1.55		○	
26. Number of skimming cards and Non-EMV converted POS Transactions (LKR)	Zero	Nil	0.46 Mn. 27 Txn	○		

Monitoring the risk profile

The Board Integrated Risk Management Committee and its appointed subcommittees use the Risk appetite statement to determine appropriate earnings volatility, risk/return targets and risk tolerance and concentration limits which it allocates to business activities or to specific risk types. Risk Management Unit and Board Integrated Risk Management Committee have the responsibility to continuously monitor the risk profile of Seylan Bank PLC, ensure that the latter is within the approved risk appetite tolerance limits and ascertain whether certain business lines need further monitoring or new guidance regarding risk-taking.

Each business unit defines its strategy and business plans with a view to optimising its overall risk/return trade offs within the Bank's risk appetite. Consistency is maintained between the top-down targets and limits set by the Board integrated Risk Management Committee and more granular limits are set in case of products, portfolio, individuals and traders.

Credit risk management

Credit risk is defined as the risk of a potential loss to the Bank, when counterparty fails to perform on an obligation, in accordance with the agreed terms or its ability to perform such obligation is impaired resulting in a loss to the Bank. In essence, the proper management of credit risk underpins a Bank's financial stability, growth prospects and profitability and as such Seylan Bank has developed a well-structured credit risk management process in order to maintain the quality of the credit portfolio of the Bank at the optimal level.

Accordingly, credit risk is managed through a comprehensive framework which includes well-defined policies and procedures that include clearly structured approval hierarchies and different committees to oversee various aspects of credit risk management processes in the Bank. In addition, the Bank manages its credit exposures through diversification strategies across products, geographies, clients and customer segments. The Bank's main objectives in credit risk management are as follows:

- Maintain a credit risk management framework to ensure quality, consistency and transparency in credit risk approvals at all times
- Identify, assess and measure credit risk clearly and accurately across the Bank and within each separate business, from the level of individual facilities up to the total portfolio
- Control and plan credit risk-taking in line with external stakeholder expectations and avoid undesirable concentrations
- Monitor credit risk and adherence to agreed controls on a continuous basis to ensure that risk-reward objectives are met

The Credit Standards and Policy Manual outlines the fundamental standards and disciplines that the Bank has implemented to actively manage credit risk across our lending book. The Credit Procedure Manual on the other hand, outlines the proper processes to be adopted in evaluating proposals and

granting of credit facilities to clients. These standards, policies and procedures lay down key roles and responsibilities of those required to originate, identify, analyse, rate, review, price, report, diversify, control/mitigate and manage credit risks and are applicable to all lending activities undertaken by our Bank. These two Manuals are reviewed regularly and updated throughout the year on a regular basis to ensure consistency with the Bank's business strategy. The Lending Guidelines outlines the Bank's strategic risk/reward objectives in the light of evolving market conditions by clearly setting out the preferred industries and lending types to be targeted for lending growth during each calendar year. The Lending Guidelines are also reviewed biannually to better align the Bank's lending strategies with the emerging trends in the market.

In order to better manage the overall credit, liquidity and interest rate risk, the Bank mainly focuses on self-liquidating facilities with short to medium-term maturities in growing its loan book. In addition to setting up exposure limits for clients individually, the Bank manages counterparty credit exposures, using the "one obligor principle", so that all facilities to a group of borrowers wholly or substantially owned or controlled by common or related parties are aggregated and evaluated together under the coordination of a designated Lead Relationship Manager.

When a number of counterparties are engaged in similar activities and have similar economic characteristics, their ability to meet contractual obligations can be similarly affected by changes in the economic and other conditions, leading to a credit concentration risk. In view of this, the monitoring of credit concentration is an integral part of the credit risk monitoring process at Seylan Bank. Accordingly, the Bank constantly reviews its credit concentration on a number of areas such as; geography, product type, industrial sectors and maturity. Close monitoring of key ratios/internal thresholds on a continuous basis and stress testing of the credit portfolios form another strategy to measure and monitor the credit concentration risk in Bank's loan portfolio.

Additionally, the Bank's credit risk management strategy includes; identifying the emerging risks, which can impact the business activities of the clients well in advance, ensuring that the credit facility or the relationship returns the expected profitability, close monitoring of the usage of working capital facilities to prevent diversion of funds into unintended areas and ensuring timely repayment of the facilities.

Assessment of credit risk

In order to grow the Bank's loan book on high quality loans and advances, there is a clear segregation of duties between transaction originators in business areas and approving authorities under the risk function. All credit exposure limits are approved within a well-defined credit approval authority framework. Credit risk evaluation and approval is undertaken by experienced credit risk professionals operating within a clearly defined delegated authority framework, with only the most senior credit officers entrusted with the higher levels of delegated authority. All high value credit propositions above a certain threshold level are approved by the Board Credit Committee or the Board of Directors as relevant.

The Bank has delegated credit approval authority to individual lending officers, based upon a consistent set of standards such as experience, judgement and ability. These authority levels are subjected to review on an annual basis. If an individual lending officer's authority is insufficient to establish, materially change or restructure the required credit limits, the proposals are escalated to an officer or committee having the required higher delegated authority. In addition, the individual credit exposure limits on the clients are subjected to a critical review annually and require the approval at the appropriate authority level. Managers recommending, reviewing or approving facilities are held accountable for the outcome.

Functions of credit risk management

Credit Risk Management Structure comprises two main functional components, namely Credit Risk Management Unit (CRMU) and the Credit Risk Review Unit (CRRU). While the Credit Risk Management Unit evaluates proposals at the pre-sanction stage, the Credit Risk Review function assesses the proposals at post-sanction stage.

All high value lending proposals and reviews are subjected to an independent critical examination by the CRMU to ascertain whether the risks have been fully identified and evaluated, they are in line with the Bank's Lending Guidelines and risk acceptance criteria, risks have been adequately mitigated, the facilities are well-structured and whether proposed credit exposures are at prudent levels. CRMU then recommends that the approving authority either approves the proposal (with additional risk mitigants/conditions wherever necessary) or declines it. In addition to this exercise it is mandatory that all the high value credit propositions need to be approved by the CRO on an independent basis. Further, the Bank is currently in the process of assigning credit risk managers at Area Offices with a view of broad-basing the risk oversight on medium sized credit propositions and simultaneously enhancing the delegated authority level of the Area Managers leading to better efficiencies within the credit approval hierarchy.

CRMU functions independently but is in regular interaction with the business units so that emerging risks and the lessons learnt through our lending and recoveries experiences are used to continuously improve the Bank's policies and practices.

CRMU also monitors credit concentrations against approved prudential exposure limits and the achievements of business and lending portfolio managers in improving credit quality, as measured by their success in minimising overdue/non-performing advances portfolios and submits regular reports to the Executive Credit Risk Management Committee (ECRMC) recommending corrective action wherever required. The Bank has further strengthened the portfolio monitoring at the CRMU by deploying additional staff who are capable of analysing data.

Credit Risk Review Unit (CRRU) independently reviews the already approved high level facilities within three months of drawdown/renewal focusing on the approval, disbursement, relationship management and credit portfolio management processes. Further, CRRU identifies instances of non-compliance with credit standards, policies, procedures and Lending Guidelines, if any. Also, CRRU independently ascertains whether there had been any emerging risks that have not been addressed at the time of evaluating the credit proposals or whether there are any facilities where any appropriate remedial actions have not been initiated. Based on this critical assessment, CRRU makes recommendations which are aimed at reducing the risk of default and minimising losses in the event of default. The lessons learnt from these reviews and recommended actions are referred to Risk Committees and circulated to all lending officers on a regular basis leading to qualitative improvements across the Bank's lending portfolio. In addition, CRRU also involves in conducting training programmes at regional locations and at the Training Centre to educate the branch managers and the credit staff about the proper usage of the Lending Guidelines and evaluation of credit proposals in order to improve Bank's credit quality.

Credit Administration Unit

Seylan Bank's loan portfolio is administrated through a Centralised Credit Administration Division, which ensures efficient and effective post-sanction customer support including disbursement, settlements, processing of security documents. Setting up of the Unit has effectively reduced the transaction costs and improved the efficiency in processing and managing a quality credit portfolio for the Bank. Further, the Unit is also involved in conducting training for branch and department staff in the procedures relating to Credit Administration.

Credit rating and measurement

Risk measurement plays a central role, along with judgement and experience, in forming risk-taking and portfolio management decisions. It is a primary area for sustained investment and Senior Management's attention.

As part of the Bank's credit risk management strategy, a "Credit Rating System" was initially introduced in April 2007, with the broader objective of improving the credit quality of the Bank through pre-qualifying borrowers for credit facilities and risk-based pricing of such credit facilities through an objective risk analysis. As a further step towards developing this credit rating system to be in line with the vastly changed macro-economic conditions and as well as to meet the regulatory requirements vis-à-vis the CBSL/Basel guidelines, the Bank upgraded the Credit Rating System during the year 2014. Further, one of the main prerequisites of moving to the IRB approach for the computation of capital requirement for credit risk is the need for vibrant Internal Rating Models to risk grade the clients and the availability of through the cycle probability of default (PD) values for a minimum period of five years. The Bank therefore is currently in the process of conducting a gap study to assess the Bank's readiness to move to the IRB approach with the assistance of a reputed consultancy firm with the collaboration of their Indian counterparts. Additionally this consultancy firm has been entrusted to validate the existing credit rating models and to assist the Bank in introducing a Risk-Based Pricing Mechanism in granting loans.

Credit evaluation and approval process

The Bank commenced designing a Loan Origination System (LOS) in mid-December 2015 to streamline the credit evaluation/approval process across all business channels. After a tedious well-structured development process, the live implementation of this System was done and the Bank managed to successfully roll out this System across all the branches and lending units during the year 2017. Further upgrades to the System will be done in the year 2018 and the Bank expects that this System will provide the foundation for an efficient credit appraisal process by reducing the time taken to evaluate/approve facilities thus improving the quality of the credit portfolio.

Credit hubs

The Bank has already commenced setting up SME Hubs on a Regional basis with the objective of improving the quality of credit evaluation and improving the efficiency/reducing turnaround time

(TAT) for SME credit approvals. The Bank expects that this measure would enable the branches to focus more on canvassing new SME clients and to serve the existing SME clients in a much better way. Three of the fourteen SME credit hubs have already been setup in 2017. We expect the remaining hubs to be established by third quarter of 2018.

Credit risk mitigation

In mitigating credit risk, the Bank primarily relies on a rigorous assessment of credit applicants, the strength of their business model, sustainable financial conditions and our ability to meet their financial requirements. Further, the lending proposals are normally required to show more than one independent credible source of repayment. The primary source is established through a conservative evaluation of whether the borrower's realistic projected cash flows will be sufficient to repay their debts. The Bank normally requires this to be supported by at least one alternative way of settling the debt in the event of unforeseen adverse circumstances but firmly believes that the availability of collateral does not in itself make an unacceptable lending proposition acceptable.

In instances where the Bank accommodates highly reputable and financially strong corporate borrowers, whose performance is regularly and rigorously reassessed on the basis of reliable financial information, we exceptionally grant facilities on an unsecured basis solely based on their cash flows.

The Bank uses various techniques and controls to limit and mitigate credit risk exposures and reduce potential credit losses. These include documenting credit transactions with adequate terms, conditions and covenants in a comprehensive and legally enforceable basis and obtaining of guarantees, financial or other collaterals to provide a secondary recourse to minimise credit losses. Such guarantees serve to mitigate the inherent risk due to credit default and minimise any related losses by either substituting the borrower default risk or improving recoveries.

The Bank ensures that the collateral accepted for risk mitigation purposes is of high quality and supported by legally effective and enforceable documentation. When determining security, the Bank will be guided by:

- Whether the ownership and the title to the security is acceptable without any defects or other encumbrances with stable minimum value and required margin of security in favour of the Bank, to support the borrowing through the period of repayment.
- Whether the security can be realised without any difficulties to recover our dues fully in an eventuality.

The Bank nets off collateralised cash deposits against the on balance sheet non-performing advances in the instances where the relevant documentation which is legally binding all parties and enforceable on all jurisdictions are available.

In the standardised approach, collateral recognition is limited to eligible financial collateral such as gold only but this approach provides a preferred (lower) risk weight for "SME exposures secured by immovable property" and "claims secured by residential property". Though the Bank has relied on the individual and corporate guarantees in granting credit facilities, the Bank has not relied upon any credit derivative instruments to transfer the credit risk assumed on the clients.

Collateral impairment haircuts are applied to security valuations, based on conservative and predetermined Loan/Collateral ratios in compliance with the Banking Act Direction No. 03 of 2008, "Classification of Loans and Receivables, Income Recognition and Provisioning".

Non-performing advances by collateral type

Collateral type (Secured by)	2017 LKR '000	2016 LKR '000
Cash/shares	228,164	432,591
Immovable property	8,227,789	5,912,148
Movable assets	806,485	567,887
Other securities	1,726,850	3,278,965
Pawned articles	71,212	57,086
Clean	2,422,400	1,327,847
Grand total*	13,482,900	11,576,524

* Excluding interest receivables.

Monitoring, reporting and disclosure of credit risk

Corporate, business and area management are primarily responsible for monitoring the performance of their lending to ensure that the Bank's credit portfolio profitability and lending quality objectives are

achieved. Credit risk management uses a comprehensive range of quantitative tools and Bank-wide credit limits to monitor lending, contingent commitments and other off-balance sheet exposures, profitability, quality trends and concentrations and identifies whether the Bank is growing undue exposure concentrations and whether credit risks are adequately remunerated. The Risk Management Unit makes recommendations for suitable amendments if required, after reviewing the existing credit policy framework.

CRO reports these concentrations regularly together with his recommendations for corrective actions to the Executive Credit Risk Management Committee (ECRMC) and escalates the significantly important matters to the attention of Board Integrated Risk Management Committee (BIRMC). This rigorous process enables the Board of Directors to oversee the Bank's credit risk exposures, ensuring that the Bank quickly identifies emerging risks and risks that are not aligned with the Board approved credit risk appetite and initiates timely corrective measures.

Below: We present the qualitative and quantitative disclosures of credit risk of the Bank.

Qualitative disclosures

Definition of past due and impaired

A non-performing loan is any loan that is 90 days or more past due or is otherwise individually impaired (which represents those loans against which individual impairment provisions have been raised) and excludes:

- Loans renegotiated before 90 days past due and on which no default in interest payments or loss of principal is expected.
- Loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation and against which no loss of principal is expected.

"Impaired Loans" comprise loans where an individually identified impairment allowance has been raised and loans which are collateralised or where indebtedness has already been written down to the expected realisable value. This category includes all loans that have been transferred to legal/recovery departments. The impaired loan category may include loans, which, while impaired, are still performing.

The "accruing past due 90 days or more" category comprises loans that are 90 days or more past due with respect to principal or interest. An impairment allowance will be raised against these loans, if the expected cash flows discounted at the effective interest rate are less than the carrying value.

The "impaired and restructured loans" category comprises loans not included above where, for economic or legal reasons related to the debtor's financial difficulties, a concession has been granted to the debtor that would not otherwise be considered. Where the concession results in the expected cash flows discounted at the effective interest rate being less than the loan's carrying value, an impairment allowance will be raised.

Approach on individually significant and collective loan loss provisioning

The Bank's loan loss provisions are established to recognise impairment losses incurred either on specific loan assets or within a portfolio of loans and receivables.

Impairment allowances may be assessed and created either for individually significant accounts or, on a collective basis, for groups of individually significant accounts for which no evidence of impairment has been individually identified or for high volume groups of homogeneous loans that are not considered individually significant. Individually impaired loans are those loans against which individual impairment provisions have been raised.

Estimating the amount and timing of future recoveries involves significant judgement and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the Statement of Financial Position date are determined on a portfolio basis, which takes into account past loss experience as a result of uncertainties arising from the economic environment and defaults based on portfolio trends. Under SLFRS/LKAS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition and where these events have had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. Impairment of loans and receivables is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary. Impairment allowances are measured individually for assets that are individually significant, and collectively where a portfolio comprises homogeneous assets and where appropriate statistical techniques are available.

Credit risk concentrations with limits

Credit concentration risk may arise where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in inability to meet contractual obligations being similarly affected by changes in economic or environment conditions.

Concentration risk is mitigated to a large extent by stipulating prudent credit risk limits on various parameters. CBSL also has specified certain guidelines on maximum exposures in respect of single/related party borrower limits and large exposures.

Related party lending

Related parties include the Major Shareholders, Subsidiaries, Directors and Key Management Personnel of the Bank. The Bank has set an internal limit on the overall exposure to the related parties and ensured that credit decisions are made on a rational basis, as per the relevant legislation, approved policies and procedures and is based on market terms, with no preferential treatment.

Over exposure to geographical areas, economic sectors and lending products

Exposure to a single sector of the economy or lending product or to a narrow geographical region is another dimension of risk concentration. Borrowers may be vulnerable in the event of an economic or market downturn affecting their economic sector, which in turn can affect their ability to service the loans and to mitigate this risk the Bank sets individual concentration limits for exposure to various sectors. The Bank closely monitors the quantum and quality of lending by geography (area) but is of the opinion that weaknesses in any local economy, will not pose a significant risk in the foreseeable future.

Quantitative disclosures

Credit exposure by product types as at 31 December 2017

The core banking products such as term loans and overdrafts account for more than 70% of total advances. The specialised products are closely monitored to mitigate inherent risks.

	Total as at 31 December 2017 LKR '000	Total as at 31 December 2016 LKR '000
Credit cards	4,886,489	3,803,627
Housing	13,500,139	12,515,412
Leasing	16,222,825	14,685,690
Term loans	144,459,003	113,518,062
Margin trading	2,588,413	2,658,052
Overdrafts	62,788,151	60,076,383
Pawning	10,046,055	9,609,406
Staff term loans	6,108,917	5,521,128
Trade finance	25,869,381	19,685,422
Grand total	286,469,373	242,073,182

The Sector-wise comparison: December 2017 and December 2016

Sector	Total as at 31 December 2017 LKR '000	Total as at 31 December 2016 LKR '000
Agriculture and fishing	29,270,288	21,203,942
Manufacturing	34,776,273	26,046,082
Tourism	16,728,197	11,130,650
Transport*	26,185,451	25,795,747
Construction	32,481,598	24,716,395
Traders	53,633,312	50,288,818
New economy	1,850,642	1,753,684
Financial and business services	32,776,967	32,532,072
Infrastructure	2,630,970	2,149,585
Other services	7,925,446	8,271,100
Credit cards	4,886,489	3,803,627
Pawning**	10,046,055	9,609,406
Other	33,277,685	24,772,074
Grand total	286,469,373	242,073,182

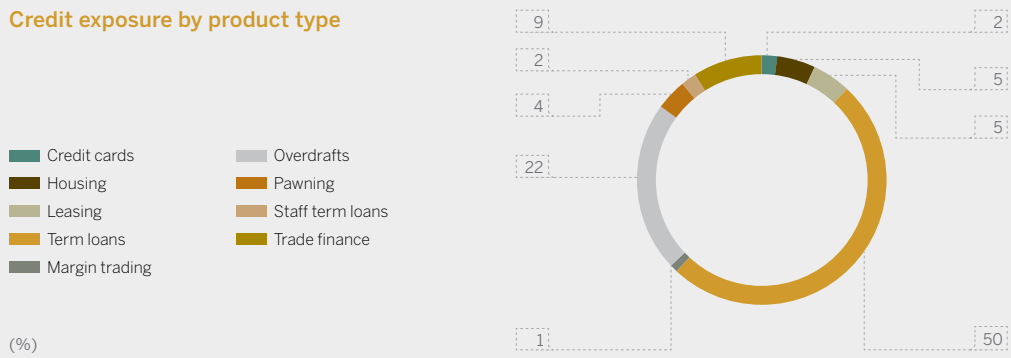
*Transport includes leasing.

** Pawning includes agriculture sector lending.

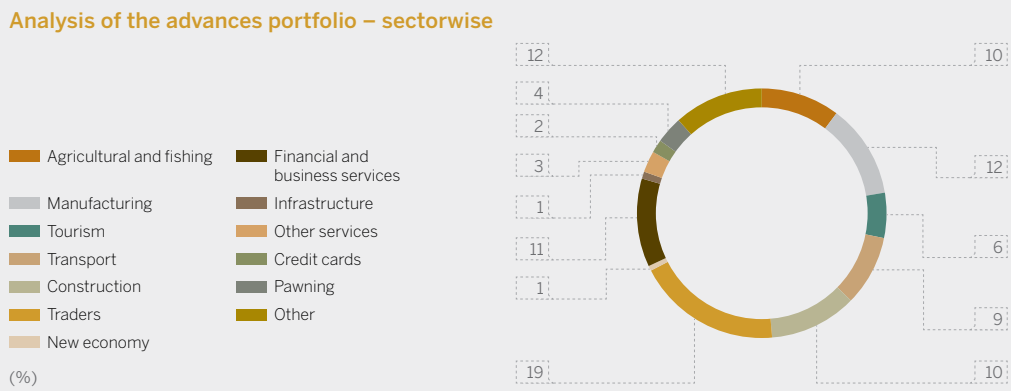
Age analysis of non-performing loans by product distribution (excluding interest receivables) – 31 December 2017 based on CBSL directions

Loan category	3-6 months NPA special mention LKR '000	6-12 months NPA substandard LKR '000	12-18 months NPA doubtful LKR '000	18 months and above NPA loss LKR '000	NPA Grand total LKR '000
Credit cards	84,985	70,910	65,953	120,566	342,414
Housing	228,114	89,242	77,742	397,190	792,288
Leasing	354,977	70,033	168,940	177,967	771,917
Margin trading	-	-	-	1,373	1,373
Overdrafts	672,216	449,391	162,286	1,277,792	2,561,685
Pawning	26,647	-	-	44,565	71,212
Staff term loans	6,979	6,931	-	18,353	32,263
Term loans	2,331,366	1,200,397	416,504	4,499,516	8,447,783
Trade finance	155,499	29,567	107,186	169,713	461,965
Grand total	3,860,783	1,916,471	998,611	6,707,035	13,482,900

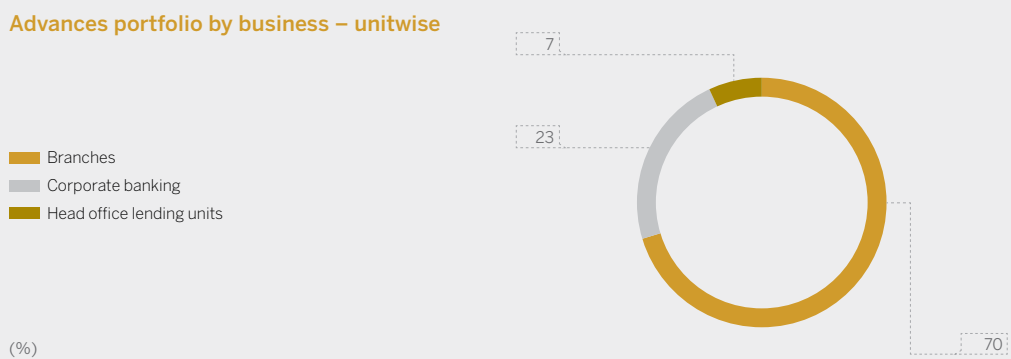
Credit exposure by product type



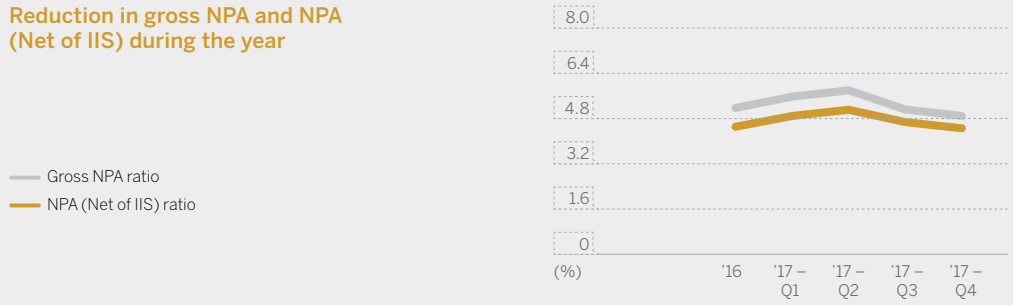
Analysis of the advances portfolio – sectorwise



Advances portfolio by business – unitwise



Reduction in gross NPA and NPA (Net of IIS) during the year

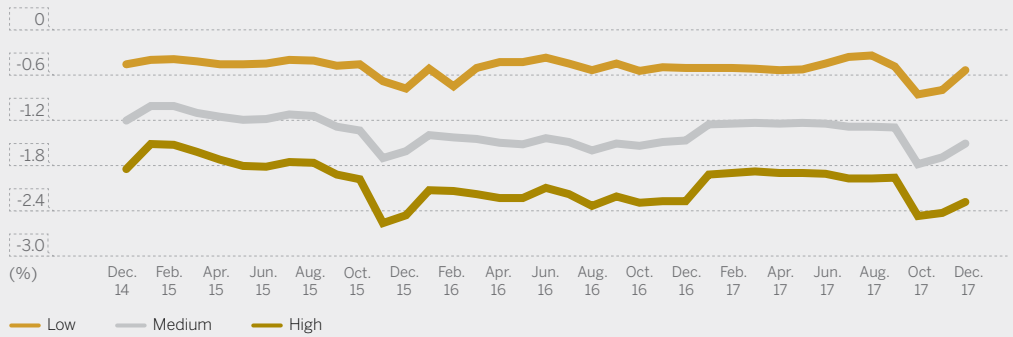


Net infection ratio of the advances portfolio during the year

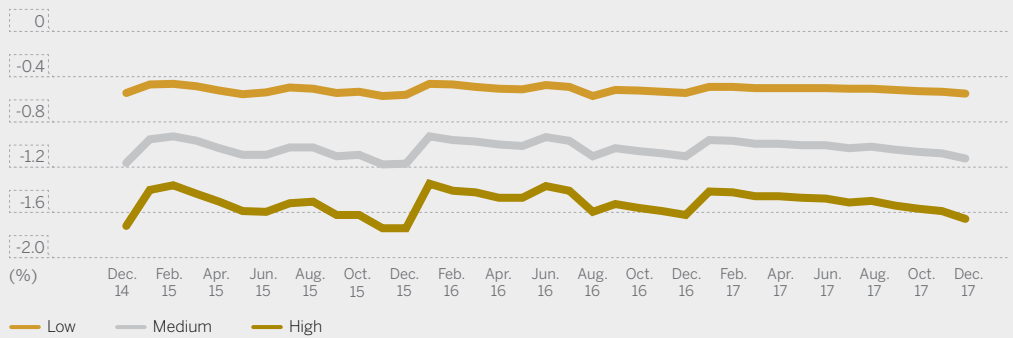


Stress tests on credit risk as at 31 December 2017

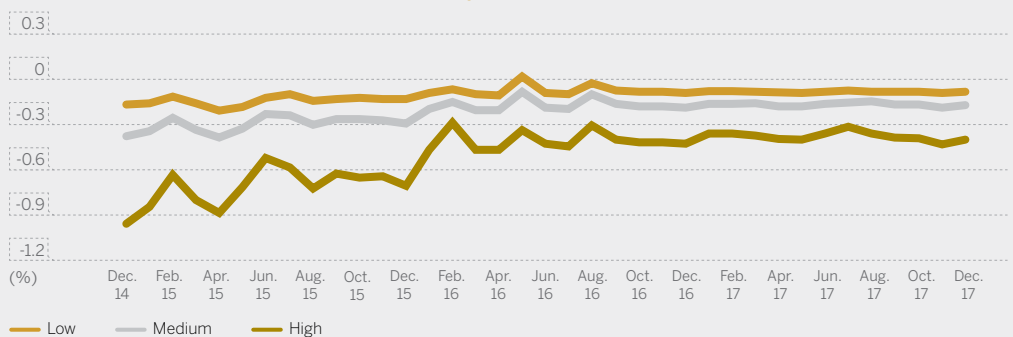
Stress test on the credit concentration risk – default by large borrowers – Net Impact on CAR



Asset classification downgrading stress test – Net impact on CAR



Stress test on fall in collateral value – net impact on CAR



Additional quantitative disclosures made in other sections of this Annual Report:

- Credit quality of financial assets and allowances for impairment held by the Bank against those assets (on page 230)
- Details of the collateral types (on page 231)
- Analysis of rupee gross loans and receivables by product (Note 24.1.1)
- Analysis of foreign currency gross loans and receivables by product (Note 24.1.1)
- Analysis of gross loans and receivables by currency (Note 24.1.2)
- Analysis of gross loans and receivables by industry-wise (Note 24.1.3)
- An analysis of concentrations of credit risk of loans and receivables by geographic locations (Note 24.1.4)
- Movement in impairment allowance on loans and receivables (Note 24.3)

Credit risk exposures and RWA calculated under the standardised approach as at 31 December 2017

Credit risk exposures and Credit Risk Mitigation (CRM) effects

Description	Amount as at 31 December 2017						
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		Total LKR '000	RWA and RWA Density (%)	
	On-balance Sheet amount LKR '000	Off-balance Sheet amount LKR '000	On-balance Sheet amount LKR '000	Off-balance Sheet amount LKR '000		RWA LKR '000	RWA Density (ii) %
Claims on Central Government and CBSL	99,044,422	-	99,044,422	-	99,044,422	2,093,224	2.11
Claims on foreign sovereigns and their Central Banks	-	-	-	-	-	-	0.00
Claims on public sector entities	-	-	-	-	-	-	0.00
Claims on official entities and multilateral development banks	-	-	-	-	-	-	0.00
Claims on Bank's exposures	2,530,376	54,981	2,530,376	54,981	2,585,357	1,559,252	60.31
Claims on financial institutions	16,518,517	22,593	16,509,567	22,593	16,532,160	14,850,982	89.83
Claims on corporates	94,909,232	102,092,016	90,529,964	14,770,086	105,300,049	104,411,493	99.16
Retail claims	146,935,619	33,567,964	118,647,857	6,035,947	124,683,804	87,768,128	70.39
Claims secured by residential property	15,634,841	-	15,590,960	-	15,590,960	8,176,915	52.45
Claims secured by commercial real estate	-	-	-	-	-	-	-
Non-performing assets (NPAs) (i)	10,216,069	-	10,216,069	-	10,216,069	14,853,779	145.40
Higher-risk categories	-	-	-	-	-	-	-
Cash items and other assets	24,032,962	-	24,032,962	-	24,032,962	16,251,941	67.62
Total	409,822,038	135,737,554	377,102,177	20,883,607	397,985,783	249,965,714	62.81

(i) NPAs – As per Banking Act Directions on classification of loans and advances, income recognition and provisioning.

(ii) RWA Density – Total RWA/Exposures post CCF and CRM.

Credit risk under standardised approach: Exposures by asset classes and risk weights

Risk-weight	Amount as at 31 December 2017 (Post CCF and CRM) (LKR '000)								Total credit exposures amount
	0%	20%	50%	60%	75%	100%	150%	>150%	
Asset classes									
Claims on Central Government and CBSL	88,578,301	10,466,121	-	-	-	-	-	-	99,044,422
Claims on foreign sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-
Claims on public sector entities	-	-	-	-	-	-	-	-	-
Claims on official entities and multilateral development banks	-	-	-	-	-	-	-	-	-
Claims on banks exposures	-	995,475	459,450	-	-	1,130,432	-	-	2,585,357
Claims on financial institutions	-	-	3,362,355	-	-	13,169,805	-	-	16,532,160
Claims on corporates	-	351,975	1,305,376	-	-	103,551,274	91,425	-	105,300,049
Retail claims	-	-	-	15,493,549	89,911,320	9,946,910	-	-	115,351,779
Claims secured by gold	3,953,187	5,359,050	-	-	-	19,788	-	-	9,332,025
Claims secured by residential property	-	-	14,828,091	-	-	762,869	-	-	15,590,960
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs) (i)	-	-	62,647	-	-	815,355	9,338,067	-	10,216,069
Higher-risk categories	-	-	-	-	-	-	-	-	-
Cash items and other assets	7,613,487	209,417	-	-	-	16,210,058	-	-	24,032,962
Total	100,144,975	17,382,038	20,017,919	15,493,549	89,911,320	145,606,491	9,429,492	-	397,985,783

Market risk management

Market risk management is considered and established to promote oversight of all market risks the Bank is exposed to, where a framework is put in place to systematically identify, assess, monitor and management report the risk arising due to the volatility of market factors.

The Bank’s capacity to take risks is set out in our Risk Appetite Framework. Within this framework, we monitor a range of risk metrics to make sure our risk profile is in line with our appetite for risk. Timely reporting of such risks helps the Senior Management to promote effective decision-making. The risk managers identify these types of risks through active portfolio analysis and engagement with the business areas.

The Bank’s most important risks and control measures are regularly reported and discussed by the Executive risk committees and the Board Risk Committee. Both financial and non-financial risk reports are reviewed in detail, with regard to liquidity, interest rate risk and market risk. We conduct bank-wide and portfolio-specific stress tests to assess resilience in specific market conditions. Underlying assumptions and metrics are regularly reviewed to ensure they stay relevant in a constantly changing environment.

Risk policies, procedures and standards

The Bank has a framework of risk management policies, procedures and standards in place to create consistency throughout the organisation, and to define requirements that are binding to all related business units.

There are also separate policies, procedures and standards unique and relevant to market risk management such as the Market Risk Policy, Liquidity Policy, Stress Testing Policy, the limit framework, the regulatory guidelines and other policies which contribute to the market risk management framework.

The governance framework of the risk taking business units are aligned with the Bank’s risk framework and meets regulatory and internal requirements. The Market Risk Management is responsible to ensure policies, procedures and standards are implemented and adhered accordingly. Policies, procedures and standards are regularly reviewed and updated via the relevant Executive risk committees to reflect changes in markets, products and practices.

Managing and measuring market risk

To ensure dynamism in risk monitoring and management, the Bank has put in place a treasury system which facilitates enhanced and real time risk monitoring. This has boosted the robustness of Treasury Middle Office to monitor the risk real time and escalate any exceptions to the Management.

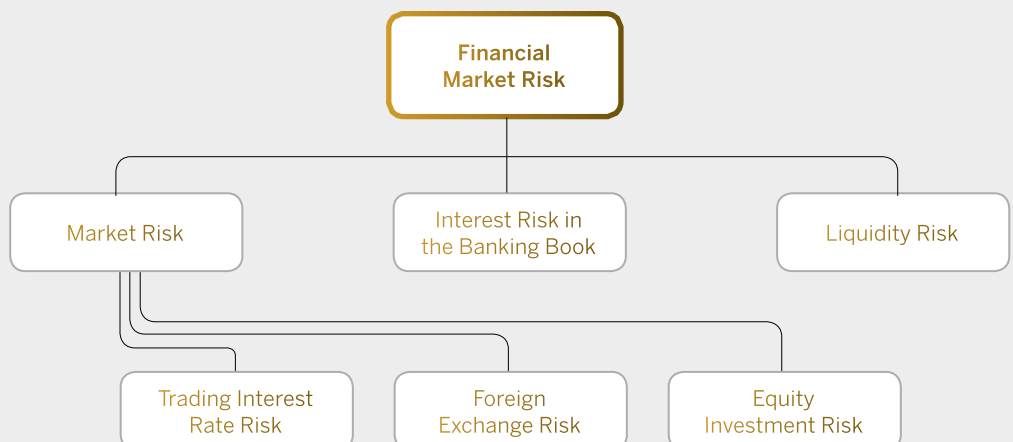
A set of limits ensures the risk-taking units do not exceed the aggregate risk and concentration parameters set by the Board. Limits are set for business units and individuals.

Independent mark to market valuations, reconciliation of positions and tracking stop losses for trading positions on a timely basis are done more frequently and reported timely to expedite relevant decision-making.

Key financial market risk categories

The key financial risks the Bank is exposed to can be divided into market risk (including trading interest rate, equity, and foreign exchange risks), funding liquidity risk and interest rate risk in the banking book.

The table below presents the key financial risk categories which are associated with Seylan Bank’s business activities linked to market risk:



Market risk Capital charge calculated under the standardised approach as at 31 December 2017

Item	RWA amount as at 31 December 2017 (LKR '000)
(a) Capital charge for interest rate risk	
General interest rate risk	83,838
(i) Net long or short position	83,838
(ii) Horizontal disallowance	-
(iii) Vertical disallowance	-
(iv) Options	-
Specific interest rate risk	-
(b) Capital charge for equity	
(i) General equity risk	16,726
(ii) Specific equity risk	10,923
(c) Capital charge for foreign exchange and Gold	
	4,053
Total Capital charge for market risk [(a)+(b)+(c)]	115,540
Total risk weighted assets on market risk	1,027,022

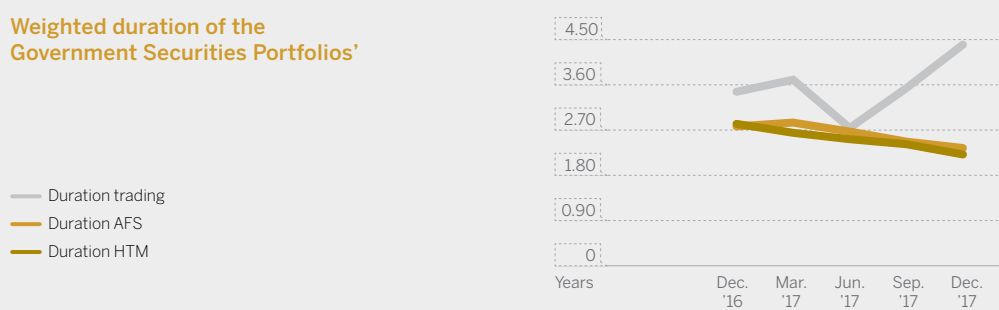
Trading interest rate risk

Our primary mechanism to manage trading interest rate risk is the application of our Risk Appetite framework of which the limit framework is a key component. The Management and Board supported by market risk management, sets portfolio limits for market risk in the trading book. These limits are allocated to our Treasury Division and individual business units based on established and agreed business plans. We have also businesses aligned with market risk management to establish business limits, by allocating the limits down to individual portfolios and cumulative exposures.

Interest rate risk on the trading book is marked to market on a daily basis and reported to the Management weekly or more frequently during volatile market movements.

The following graph represent the weighted average duration of the Government Security portfolios from 31 December 2016 and 31 December 2017:

Weighted duration of the Government Securities Portfolios'



Foreign exchange risk

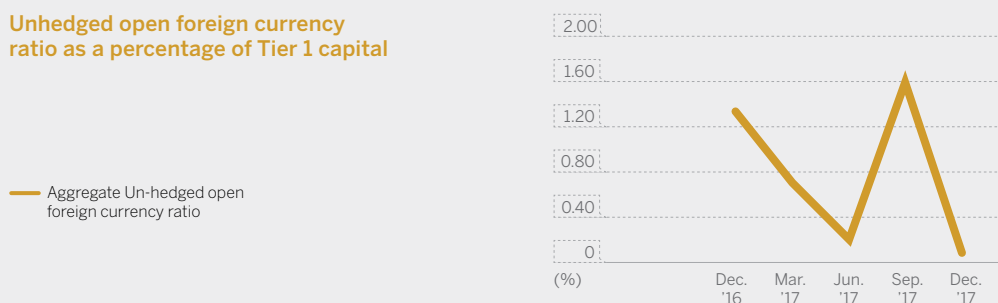
Foreign exchange risk is the current or potential risk to earnings and capital that arises from adverse movements in foreign exchange rates.

The foreign exchange risk is monitored daily and discussed at the Asset and Liability Committee on a monthly basis. Limits are agreed and approved by the Board of Directors. The risks in holding foreign currency exposures are reduced by applying individual currency limits and the overall exposure is managed within the Net Open Position (NOP) limit defined by the regulator. Individual and cumulative Intraday limits, Daylight limits and Overnight limits are defined for the treasury dealers to operate within these boundaries to mitigate the risk emanated through these exposures.

The basket of currencies held in the portfolio is translated in US Dollar terms for overall limit monitoring purposes and to interpret the general currency exposures. However when revaluing the currency exposures the individual currency value is taken into consideration for cash and forward exposures. A portion of foreign assets is held under foreign exchange swap agreements. These do not expose the Bank to exchange rate risk because, at the time the forward foreign exchange contract is entered to, an exchange rate for the reversal on a future date is agreed.

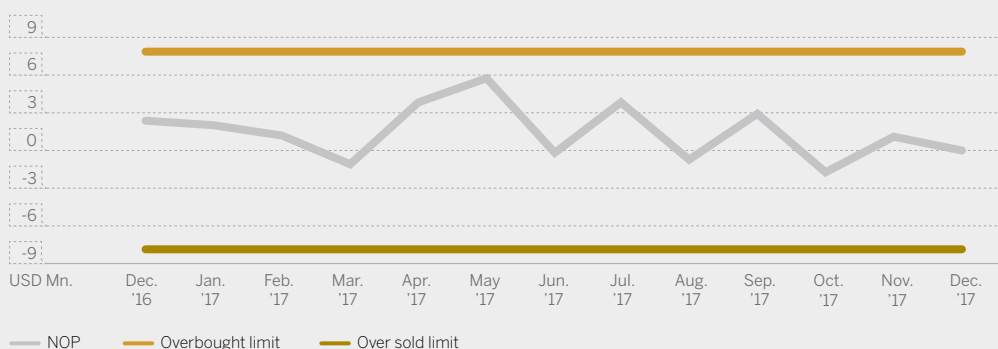
The following graph presents the NOP as a percentage of the Tier 1 Capital from 31 December 2016 to 31 December 2017:

Unhedged open foreign currency ratio as a percentage of Tier 1 capital



NOP movement during the year is depicted in the following graph:

Movement of net open position (NOP) during 2017



Currency wise maturity gap reports of the main currency exposures (USD, GBP and EUR)

Bucket	Currency	Assets '000	Liabilities '000	Mismatch '000	Cumulative Gap USD '000	As a percentage of total liabilities	(-/+) Mismatch limits %
RL: < 1 month	USD	68,910	94,044	-25,134	-25,134	-6.34	20
RL: 1-3 months		117,456	70,173	47,282	22,148	5.59	20
RL: 3-6 months		79,563	52,642	26,921	49,069	12.39	20
RL: 6-12 months		15,996	70,403	-54,407	-5,337	-1.35	30
RL: 1-3 years		68,733	7,741	60,992	55,655	14.05	20
RL: 3-5 years		38,312	85,450	-47,138	8,517	2.15	20
RL: 5-10 years		2,860	0	2,860	11,377	2.87	10
RL: >10 years		4,093	15,732	-11,639	-262	-0.07	10
Exposure		395,923	396,184	-262			

Bucket	Currency	Assets '000	Liabilities '000	Mismatch '000	Cumulative Gap GBP '000	As a percentage of total liabilities	Negative Mismatch limits %
RL: < 1 month	GBP	9,376	1,897	7,478	7,478	52.10	20
RL: 1-3 months		4,148	2,896	1,251	8,730	60.82	20
RL: 3-6 months		45	1,680	-1,635	7,095	49.43	20
RL: 6-12 months		90	7,837	-7,747	-652	-4.54	30
RL: 1-3 years		359	0	359	-293	-2.04	10
RL: 3-5 years		167	0	167	-127	-0.88	10
RL: 5-10 years		123	0	123	-4	-0.02	10
RL: >10 years		47	43	4			
Exposure		14,353	14,353	0			

Bucket	Currency	Assets	Liabilities	Mismatch	Cumulative Gap	As a percentage of total liabilities	Negative Mismatch limits
		'000	'000	'000	EUR '000	%	%
RL: < 1 month	EUR	3,326	1,687	1,639	1,639	13.25	20
RL: 1-3 months		8,892	5,667	3,225	4,864	39.33	20
RL: 3-6 months		0	399	-399	4,465	36.10	20
RL: 6-12 months		0	4,439	-4,439	26	0.21	30
RL: 3-5 years		0	25	-25	1	0.01	10
RL: >10 years		154	151	3	4	0.04	10
Exposure		12,372	12,368	4			

Equity price risk

The Bank maintains a strategic portfolio with a not so large equity exposure in the AFS book, and a very small exposure in the trading book.

The management of the price risk of equity investments is the responsibility of the treasury department with oversight of the Treasury Investment Committee.

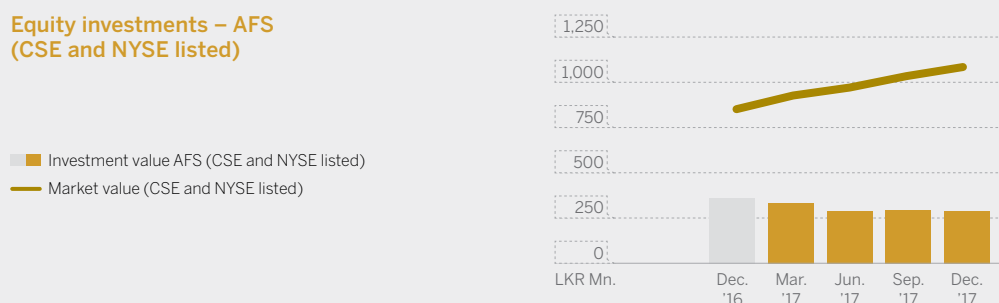
Market risk management unit acts independently in monitoring and reporting the equity investments risk, and is responsible for reporting the impact on earnings on a daily basis to the Treasury Investment Committee and the impact on earnings and regulatory capital on a monthly basis to ALCO and the Risk Committee and subsequently to the Board.

The Graphs represents the investments in the Trading and the AFS portfolios and the behaviour of market values of the equity investment portfolios:

Equity investments – Trading



Equity investments – AFS (CSE and NYSE listed)



Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book arises principally from mismatches between the future yield of assets and their funding cost (deposit liabilities) as a result of interest rate changes. The aim through the management of IRRBB is to mitigate the effect of prospective interest rate movements that could reduce future net interest income, while balancing the cost of such hedging activities on the net revenue stream. Analysis of this risk is sometimes complicated for products where the contractual terms tend to differ from the actual duration, due to unpredictable customer behaviours. For these products, assumptions are used to allow more accurate analysis.

Managing IRRBB includes the impact of interest rate shocks on the change in Economic Value of Equity (Δ EVE) and Net Interest Income (NII) based on prescribed scenarios. The aim is to promote greater consistency, transparency and comparability in the measurement and management of IRRBB.

The following table presents a change in annual net interest income with the rate change by +/-100, 200 and 250 bps and balance sheet assumed to be stable.

The analysis is based on the following assumptions:

- For a rate increase: interest on savings accounts shall not increase except when rates increase by 250 bps where the savings component will be increased by 75 bps only.
- The interest sensitive assets and liabilities are bucketed on their reprising maturities or failing which on their contractual maturities.

Change in the net interest income per annum	31 December 2017 LKR '000	31 December 2016 LKR '000
100 bps	+/- 289,717	+/- 265,419
250 bps	+/- 743,314	+/- 680,274

Funding and liquidity risk

Funding and liquidity risk management has two dimensions:

- Liquidity risk management focuses on having a sufficient buffer to cope with a short-term situations.
- Funding risk management ensures long-term compliance with both internal and external goals.

Managing funding and liquidity risk focuses both on "business as usual" (based on the run-off profile to show the stickiness of deposits combined with the run-off of assets without new production) on a stressed situation.

For liquidity risk, the Bank focuses the time to survive under cash flow projections, while for funding risk we focus on having a stable funding profile.

Managing liquidity risk

The Bank seeks to manage liquidity risk across all classes of assets and liabilities to ensure that even under adverse conditions; we have access to funds at a reasonable cost. Ultimate responsibility for liquidity management lies with the Bank's Asset Liability Committee, with Treasury managing the liquidity and funding needs of the Bank on a daily basis.

Deposits represent the Banks principal source of funding. Our well-diversified retail deposit base represents a large portion of our funding concentration and a portion of hot-money has been raised from corporate and institutional clients. The Bank raises funds locally or internationally, mostly through the funding concentration, including repurchase agreements, borrowings and money market instruments.

At Seylan Bank essential ingredients in managing liquidity risk are in tapping available sources of liquidity, preserving necessary funding capacity, and continuous contingency planning. Liquidity targets are maintained to ensure that even under adverse conditions; funds are available to cover customer needs, maturing liabilities, and other funding requirements.

Liquidity risk mitigation techniques

Liquidity risk management
Liquidity risk is the risk that the banks would incur losses because it finds it difficult to secure the necessary funds or is forced to obtain funds at far higher interest rates than under normal conditions due to a mismatch between the maturities of assets and liabilities or an unexpected outflow of funds.

At Seylan Bank liquidity risk is managed in the following manner:

- Asset Liability Management (ALM) Policy of the Bank specifically deals with liquidity and interest rate risk management.
- As envisaged in the ALM policy, liquidity risk is managed through the traditional floor approach better known as the "Gap Analysis" based on the residual maturity/behavioural pattern of assets and liabilities as prescribed by CBSL and against prudential (tolerance) limits set for different residual maturity time buckets.
- Daily the Bank monitors liquidity risk through the stock approach by implementing ratios' and limits to monitor the Bank's liquidity requirements and to monitor the long term and short term funding concentration of the Bank for efficient asset/liability management.
- The Bank has also put in place a mechanism of short term dynamic liquidity and contingency plan for liquidity risk management.
- Contingency Funding Plan (CFP), approved by the Board sets the process to take care of a crisis situation in the event of liquidity crunch or a run on the Bank. A comprehensive set of early warning indicators has been designed to forewarn of impending liquidity stress.

Liquidity Coverage Ratio (LCR)

While the LCR complements the internal stress testing framework, maintaining a ratio in excess of minimum regulatory requirements, ensures that the Bank holds adequate liquidity resources to mitigate a short-term liquidity stress.

Our LCR of 122% as of 31 December 2017 has been calculated in accordance with the regulatory guidelines.

LCR components	31 December 2017 liquidity value LKR Mn.	31 December 2016 liquidity value LKR Mn.
High quality liquid assets	56,261	49,394
Gross outflows	68,382	59,651
Gross inflows	22,243	15,195
Net outflows	46,139	44,456
LCR ratio (%)	122	111

Basel III computation of liquidity coverage ratio

Item	Reporting period 31 December 2017			Previous reporting period 31 December 2016		
	Total un-weighted value LKR '000	Factor %	Total weighted value LKR '000	Total un-weighted value LKR '000	Factor %	Total weighted value LKR '000
Total stock of high-quality liquid assets (HQLA)	-	-	56,261,229	-	-	49,394,168
Total adjusted level 1A assets	56,553,893	-	56,553,893	48,632,173	-	48,980,791
Level 1A assets	56,157,004	100	56,157,004	48,922,886	100	49,271,504
Total adjusted level 2A assets	-	-	-	-	-	-
Level 2A assets	-	-	-	-	-	-
Total adjusted level 2B assets	-	-	104,225	-	-	122,664
Level 2B assets	208,450	50	104,225	245,327	50	122,664
Total cash outflows	-	-	68,381,552	-	-	59,650,950
Deposits	241,876,890	10	24,187,689	243,863,772	10	24,386,377
Unsecured wholesale funding	58,961,390	25-100	28,263,268	24,262,592	25-100	14,203,211
Secured funding transactions	-	-	-	-	-	-
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	96,478,724	0-100	6,773,396	61,410,634	0-100	4,716,183
Additional requirements	9,157,199	100	9,157,199	16,345,179	100	16,345,179
Total cash inflows	-	-	22,242,860	-	-	15,194,686
Maturing secured lending transactions backed by collateral						
Committed facilities	3,719	0	-	7,490	0	-
Other inflows by counterparty which are maturing within 30 days	40,923,442	50	20,461,721	26,560,403	50	13,280,202
Operational deposits	1,159,518	0	-	842,058	0	-
Other cash inflows	3,562,278	50	1,781,139	3,828,968	50	1,914,484
Liquidity coverage ratio (%) (stock of high quality liquid assets/total net cash outflows over the next 30 calendar days)* 100	-	-	121.94	-	-	111.11

Stress testing

Stress testing is an integral component of our risk and capital management framework. It allows us to assess potential vulnerabilities to the business. It also helps to understand the sensitivities of the core assumptions in our strategic and capital plans; and improve decision-making through balancing risk and return.

In addition to internal stress test scenarios reflecting the outcomes of the annual risk assessments, the Bank also performs regular stress test exercises for management insight and timely decision-making.

The stress test are generally carried out applying static balance sheet assumptions either at a close of a month, quarter or the end of a financial year.

The result of the stress test reaffirms the resilience of our business models and the strength of the Bank's capital base. Our commitment to maintain a robust, Capital Adequacy Ratio (CAR) in excess of the prevailing requirements remains.

Stress tests carried out for the trading exposures and their impact on profit and capital is depicted below:

I. Trading interest rate risk

Trading interest rate risk on the Government Security treasury bond portfolio		31 December 2017	
Face value LKR '000	Market value LKR '000	Portfolio duration Years	Present CAR %
3,673,896	3,990,111	4.49	13.25
PV01 – Deviation in the price of a bond due to 01 basis point change in yield			
Increase in rates by	Change in WA portfolio duration	Impact on Earnings '000	Impact on CAR %
100 bps	4.49	179,349	-0.01
200 bps		358,698	-0.02
300 bps		538,047	-0.03

II. Foreign exchange risk

Sensitivity of the foreign exchange exposure as at 31 December 2017					
Net open position (prior to stress)	Net open position USD '000	Open position LKR '000	Capital charge on open position (RWA)	Current CAR %	
	-134	-20,887	-2,089	13.25	
Net open position after Stress Test					
Scenario	Shock levels (appreciation)	Adjusted position LKR	Impact on P and L	Impact on required capital	Impact on CAR %
*Minor	5%	-19,843	1,044	-1,984 104	0.00
Moderate	10%	-18,798	2,089	-1,880 209	0.00
Major	15%	-17,754	3,133	-1,775 313	0.00

* Negative shocks represent an appreciation of LKR/USD

III. Equity price risk

Sensitivity of the equity trading exposure as at 31 December 2017						
Equity position (Prior to stress)	Invested value LKR '000	Equity carrying value LKR '000	Specific capital charge	General capital charge	Total capital required	Current CAR (%)
	4,043	3,719	186	372	558	13.25

Equity position after stress test							
Scenario	Shock levels	Adjusted equity net position LKR '000	Impact on P and L LKR '000	Specific capital charge LKR '000	General capital charge LKR '000	Adjusted capital required LKR '000	Net impact on CAR %
Minor	-10%	3,347	-372	167	335	502	0.00
Moderate	-20%	2,975	-744	149	297	446	0.00
Major	-30%	2,603	-1,116	130	260	390	0.00

Sensitivity of the equity AFS Exposure as of 31 December 2017						
Equity position (Prior to stress)	Invested value (CSE Listed) LKR '000	Equity carrying value (CSE Listed) LKR '000	Specific capital charge	General capital charge	Total capital required	Current CAR %
	208,798	163,546	10,737	16,355	27,091	13.25

Equity position after stress test							
Scenario		Equity Net Position	Impact on OCI	Specific capital charge	General capital charge	Adjusted capital required	Net Impact on CAR
Minor	-10%	147,191	-16,355	9,663	14,719	24,382	-0.01%
Moderate	-20%	130,837	-32,709	8,589	13,084	21,673	-0.01%
Major	-30%	114,482	-49,064	7,516	11,448	18,964	-0.02%

Stressed LCR

LCR for an increase in interest rates by 1% and its impact on the Government Security Portfolio and the impact on LCR:

Description	31 December 2017		31 December 2016	
	Actual LCR LKR Mn.	Stressed LCR LKR Mn.	Actual LCR LKR Mn.	Stressed LCR LKR Mn.
Stock of high quality liquid assets	56,261	54,747	49,394	47,610
Total outflows	68,382	68,382	59,651	59,651
Total inflows	22,243	22,243	15,195	15,195
Net cash outflows	46,139	46,139	44,456	44,456
Liquidity coverage ratio (%)	122	119	111	107

Linkage between Accounting and regulatory exposure amounts

Exposure to market risk is separated into two portfolios:

- Trading portfolios comprise positions arising from market making. The instruments classified as under this portfolio is Disclosed in Note 23 to the Financial Statements
- Non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as available for sale (AFS) and held to maturity (HTM). The instruments classified as AFS and HTM are disclosed in Notes 25 and 26 to the Financial Statements

Other risks managed under market risk management

Counterparty credit risk

Counterparty credit risk is the risk arising from the possibility that the counterparty may default on amounts owned on a transaction. Financial transactions that derive their value from the performance of assets, interest or currency exchange rates get included in structuring the obligation where debt obligations and deposits, swaps, futures and forward contracts are considered for the combination.

Counterparty credit risk which is managed and monitored by Treasury Middle Office are mostly transactions entered by treasury and a combination of trade transactions entered with foreign and local financial counterparts. The treasury related transactions include all foreign currency contracts, Money market transactions, and outright treasury transactions entered with local and foreign counterparts. A limit framework is put in place in managing the counterparty credit risk. Treasury Middle Office monitors on a real time basis the utilisation of each counterparty; against the stipulated limit and a daily reporting is carried out to appraise the Senior Management of any irregularities in the limits.

Country risk concentration

Country risk is the risk that arises due to adverse events occurring in a specific country. Country risk is the risk of loss for the Bank associated with lending, pre-settlement, money market and investment transactions as a result of country risk events. A country risk event can be described as economic, financial and political shocks and transfer or exchange restrictions, affecting all counterparties in a specific country. The occurrence of a country risk event may cause all counterparties in a country to be unable to ensure timely payments, despite their willingness to meet their contractual debt obligations. As such, country risk is an additional factor the Bank has taken into account in the credit approval process of individual counterparties, as the country risk event probability may impact the default probability of individual counterparties. Country risk ratings represent a key tool in our management of country risk. They are established by an independent country risk research function within our credit risk management function.

We manage our exposure to country risk through a framework of limits. The Bank specifically limits and monitors its exposures to countries with trade barriers and embargo's. Limits are reviewed at least annually, in conjunction with the review of country risk ratings. Country risk limits are approved by the Board and are monitored daily by Treasury Middle Office.

Operational risk management

Operational risk is the potential risk of loss or damage arising from inadequacy of internal processes, people and systems, controls or from external events such as natural disasters, social or political events that may impact the Bank. The Bank is exposed to operational risk as it is inherent in all banking products and processes.

This risk is intrinsic to the Bank in all its material products, activities, processes and systems, and is emerging as an important component of the enterprise-wide risk management system. Dealing with operational risks is a key element of the Integrated Risk Management Framework of the Bank.

Operational risk management framework and responsibilities

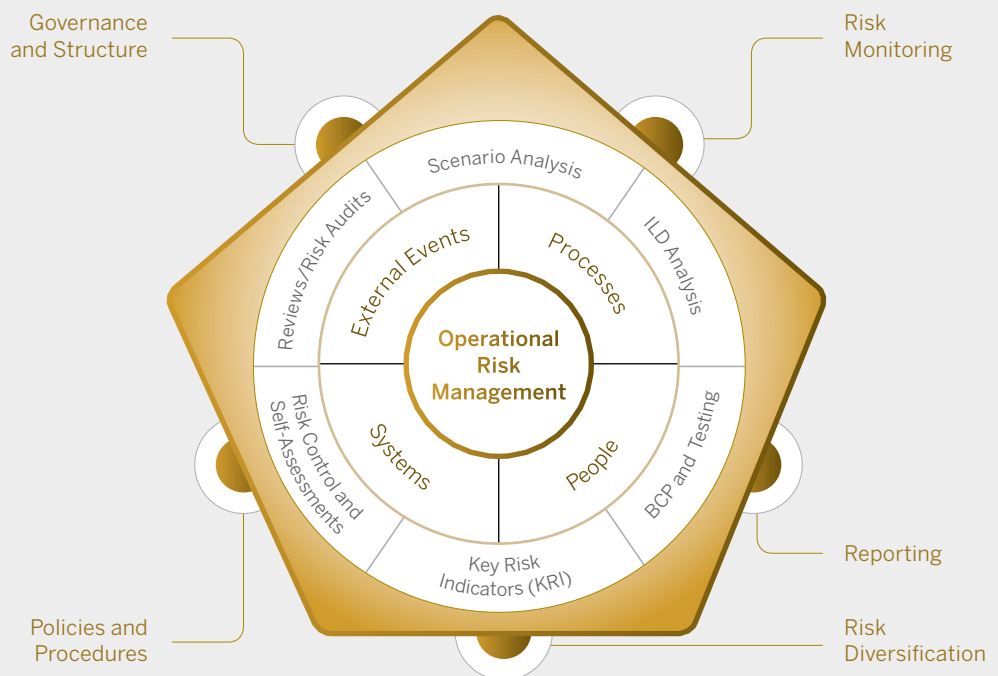
Under the Comprehensive Operational Risk Management Policy and the Framework, the roles and responsibilities for operational risk have been defined from Board level to business unit levels. Operational risk is monitored on a regular basis and the operational risk management policy framework is practiced in the daily activities of all employees.

The objective of the Operational Risk Management (ORM) division is to establish sound control practices to increase the effectiveness of the Bank’s resources and minimise financial losses. It has developed comprehensive practices under the following policies and techniques to assist in identifying, measuring, monitoring and reporting operational risk:

- Operational risk management
- Corporate information security
- Business continuity management
- Incident and near miss management
- Fraud risk management
- Insurance governance
- Business process outsourcing
- Risk Control Self-Assessment (RCSA)
- Internal Loss Data Analysis (ILD)
- Key Operational Risk Indicators (KORI)

The operational risk management function is enabled through the day-to-day management within a predefined framework. The Head of operational risk function reports to the Chief Risk Officer (CRO) and an Executive Market and Operational Risk Management Committee (EMORMC) for reporting and oversight. The CRO accordingly represents the risk function at the Board Integrated Risk Management Committee (BIRMC) for reporting and accountability. The BIRMC ensures appropriate implementation of its instructions through the defined governance structure.

Operational risk management concepts and mitigants



Based on Basel III and regulatory requirements, Industry best practices have been used to design the following risk management techniques to monitor and manage operational risk at the Bank.

Technique	Management/mitigation
Risk control Self-Assessment process (RCSA)	Centralised key business units/branches of the Bank carry out RCSA at least on an annual basis for their business processes to identify the inherent risks proactively. Findings from the RCSA exercise are used to mitigate the residual risks through implementation of proper action plans and control improvements.

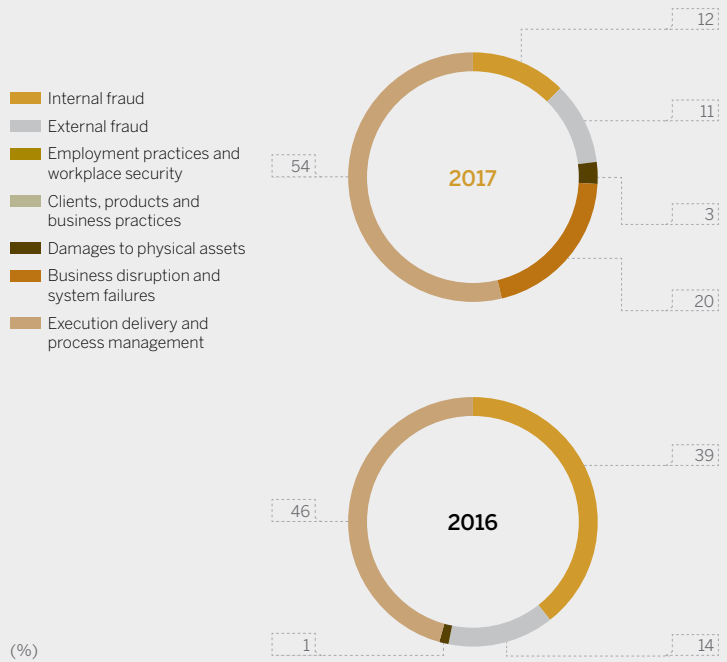
Collecting and analysing Internal Loss Data (ILD), incident and near-miss data collection

ILDs are classified into seven loss types as per Basel guidelines and into four broad business lines such as Trading Sales, Payments Settlements, Retail Banking, Commercial Banking in which Bank operates its activities. Loss events exceeding LKR 500,000 have been reported as required by the Central Bank of Sri Lanka (CBSL) quarterly. Following graph exhibits the operational losses incurred for the last two years.

The gross operational losses in 2017 increased to LKR 44.6 Mn. compared to LKR 29.7 Mn. in 2016. The major contributors to operational losses attributed to execution delivery process management and business disruption system failures. The control environment, insurance arrangements and disciplinary actions taken against the policy violators could be considered as mitigating actions on it, besides the RCSA exercise.

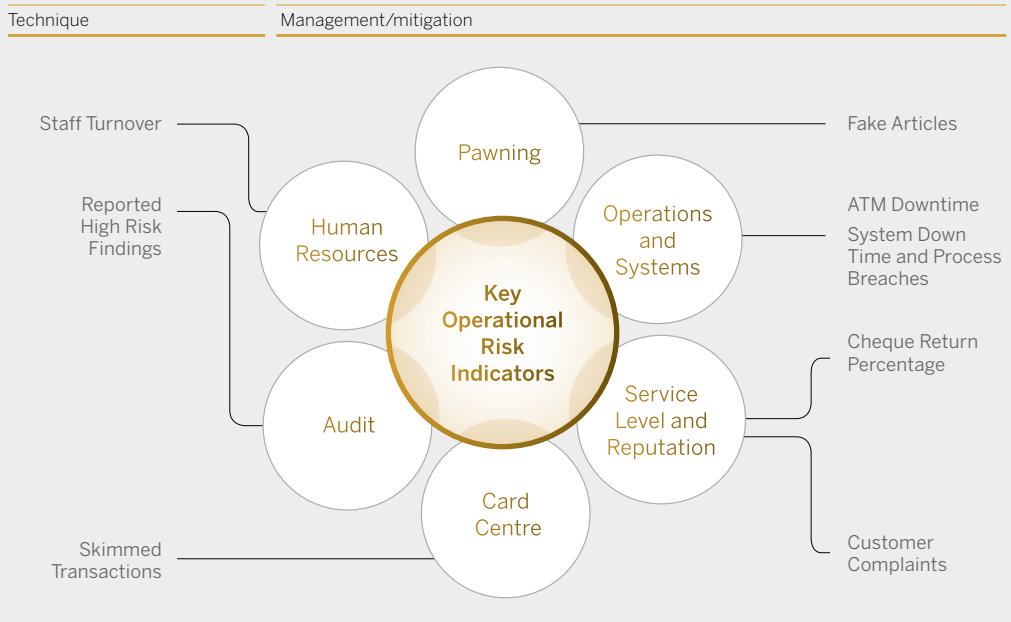
Further the operational losses incurred in year 2017 are reported under mainly the retail banking business lines and the following charts exhibit the operational losses incurred for last two years with the drill down of the same.

Operational loss



Establishing and reviewing Key Operational Risk Indicators (KORI)

KORIs are reported to each designated meeting by way of a dashboard and monitored against the corresponding threshold levels. The appropriate action plans are directed to mitigate the risks based on those indicators.



<p>Reviewing information risk, integrity and availability</p>	<p>Bank is in the position to identify and respond to suspect information flows and intruder attacks while observing the system readiness through the information risk management practices using the tools and techniques such as modern firewall technologies, intruder detection and prevention systems. The Bank has implemented Baseline Security Standards in compliance with regulatory requirement and has deployed softwares to continuously monitor cyber attacks.</p> <p>As per the Information Security Policy Framework all IT modifications/ implementations are reviewed for information security aspects to avoid operational losses.</p>
<p>Effectiveness of business continuity and disaster recovery plans (BCP)</p>	<p>Business continuity planning (BCP) ensures the capability and resilience to business disruption that may arise from internal or external events and should reduce any adverse impact on business operations, as well as profitability and reputation. Bank has a well-established Disaster Recovery Site and carried out several drills for critical systems including core banking systems in order to verify the readiness of business continuity related issues. The related executive committees and regulators are updated on outcomes of the BCP DR drills with the appropriate actions.</p>
<p>Outsourcing services</p>	<p>Outsourcing takes place when the Bank uses another party to perform non-core banking functions that would traditionally have been undertaken by the Bank itself. As a result, Bank will be benefited in focusing its core banking activities while having the non-core functions being taken care by outside experts.</p> <p>Bank has outsourced some business functions under its comprehensive policy after evaluating whether the services are suitable for outsourcing based on assessment of the risks involved and undertaking due diligence tests on the companies concerned such as credibility and ability of the owners, BCP arrangements, technical skilled manpower capability, financial strength etc.</p>
<p>Insurance arrangements</p>	<p>Bank has taken cover from the insurance providers as one of the risk mitigation strategies for high severity, low probability and the uncontrollable operational risk events such as natural disasters, fire as well as internal and external frauds, errors, omissions, hold up, employee fidelity etc. However, insurance has not been used for taking upon us risks that would otherwise not be undertaken thereby avoiding moral hazards. The insurance policy is reviewed annually for effectiveness of the same.</p>

Technique	Management/mitigation
Reviewing new products/processes	Bank was able to provide risk assurance for the newly-implemented products through Product Management Policy. This procedure includes the proactive risk identification, assessment and introduced mitigation control for risks inherent to new products, processes, systems and their amended versions as well as to projects that have a material impact on Bank's operations.

Operational Risk Disclosures

Operational risk mitigation techniques

- Bank has taken cover from the insurance providers as one of the risk mitigation strategies for high severity low probability and the uncontrollable operational risk events such as natural disasters, fire as well as internal and external frauds, errors, omissions, hold up, employee fidelity etc. However, insurance has not been used for taking upon us risks that would otherwise not be undertaken thereby avoiding moral hazards. The insurance policy is reviewed annually for effectiveness of the same.
- Business continuity planning (BCP) ensures the capability and resilience to business disruption that may arise from internal or external events and should reduce any adverse impact on business operations, as well as profitability and reputation. Bank has a well-established Disaster Recovery Site and carried out several drills for critical systems including core banking systems in order to verify the readiness of business continuity related issues. The related executive committees and regulators are being updated on outcomes of the BCP and DR drills with the appropriate actions.
- Bank uses a set of key control mechanisms to monitor and control its operational risk. These are monitored through Key Operational Risk Indicators (KORI) which are reported to each designated meeting by way of a dashboard and monitored against the corresponding threshold levels. The appropriate action plans are directed to mitigate the risks based on those indicators.

Operational risk under basic indicator is as follows:

	LKR '000	Gross income		
		2017 LKR '000	2016 LKR '000	2015 LKR '000
Gross Income		20,568,345	17,709,785	15,895,931
Capital Charge (15%)	2,708,703			
Risk-weighted amount for operational risk	24,077,361			

Details of outsourcing activities

Outsourcing involves transferring responsibility for carrying out Information Technology and Business Processing functions (previously carried on internally) to an outsourcer for an agreed charge. The outsourcer provides services to the Bank based on a mutually agreed service level, normally defined in a formal contract.

Many commercial benefits have been ascribed to outsourcing, the most common amongst these being:

- Reducing the costs
- Greater focus on core banking business by outsourcing non-core functions
- Access to world-class skills and resources
- Resource optimisation in limited duration projects

Despite the potential benefits information security incidents such as inappropriate access to or disclosure of sensitive information, loss of intellectual property protection or the inability of the outsourcer to live up to agreed service levels, would reduce the benefits and could jeopardise the security posture of the Organisation.

Definition and applicability

- An "Outsourcing arrangement" is an agreement between Seylan Bank PLC and a "Service Provider", whereby the service provider performs an activity, function or process connected with the operations of Seylan Bank PLC.
- Outsourcing arrangements shall be entered into only with "External Service Providers" who have specialised resources and skills to perform the related activities. (In compliance with CBSL Direction No. 2 of 2012).

- The CBSL directions for reporting purposes shall not apply to outsourced arrangements that are not directly related to the provision of financial services such as mail, courier services, catering of staff, housekeeping and janitorial services, security of premises, printing services (e.g. application forms, brochures etc.), recruitments on contract and temporary basis and communication services [as described under Section 2 (3) of CBSL Direction No. 2 of 2012].

Details of outsourced activities are given below –

Purpose	Name of the service provider
Recovery of overdue cards	Central Management Services (Pvt) Limited
Recovery of overdue cards (recovery call centre)	Central Management Services (Pvt) Limited
Recovery of overdue cards	Global Credit Management Services (Pvt) Limited
Recovery of overdue cards	KHC Recoveries Agency
Recovery of overdue cards	Colanka Management Services (pvt) Limited
Recovery of overdue cards	Rimacve Management Services (Pvt) Limited
Supply of man power (outsourced staff)	Central Management Services (Pvt) Limited
Canvassing new merchants/servicing existing merchants/installing POS terminals	Global Merchant Services (Pvt) Limited
Call centre operations	Scicom Lanka (Pvt) Limited
Providing hosted platform to function prepaid travel and rupee card	Yalamanchili International (Pvt) Limited
Acquiring of internet payment gateway transactions	Enstage (Pvt) Limited
EMV card embossing	Oberthur Technologies India Private Limited
M-Pay	CBA Solutions (Pvt) Limited
Printing of credit card statement	Digiscan Secure Print
Card centre data capturing	Bellvantage (Pvt) Limited
Cash transport	AB Securitas (Pvt) Limited
Cash transport	Certis Lanka Secure Logistics (Pvt) Limited
Printing of current A/C statements	Toppan Forms
Printing of FD renewals	Toppan Forms
Printing of cheque return notices	Toppan Forms
Printing of NRFC/RFC daily advices	Toppan Forms
Archiving	Trans National BPM Lanka
Check book printing	Toppan Forms
Check book printing	Lake House Printers and Publishers PLC
Corporate website	Efutures (Pvt) Limited
Rental of integrated data centre	Dialog Axiata (Pvt) Limited
Recovery of written-down and written-off	Rimacve Management Services (Pvt) Limited
Recovery of written-down and written-off	Global Credit Management Service Lanka (Pvt) Limited
Recovery of written-down and written-off	Interlanka Service Company
Recovery of written-down and written-off	Colanka Management Services (Pvt) Limited
Recovery of written-down and written-off	John Ford Credit Management (Pvt) Limited
Registrars to the Bank's debenture issue	S.S.P. Corporate Services (Pvt) Limited
Cash transport	Monaro Group Security Service (Pvt) Limited
Cash sorting	AB Securitas (Pvt) Limited
Cash sorting	Certis Lanka Secure Logistics (Pvt) Limited

Details of due diligence test of third party service providers

The Bank has developed a comprehensive policy in line with the Directions of the CBSL Direction No. 2 of 2012 and is fully implemented. This covers all aspects of due diligence controls such as comprehensive assessment, complaint handling, service quality monitoring, review of information security and business continuity plans of service providers.

Capital

The Bank complied with the Capital requirement under Basel III issued by Central Bank of Sri Lanka. As part of its capital management process, the Bank seeks to maintain a prudent balance between the composition of its capital and its investment.

Item	Amount (LKR '000) Reporting period 2017
Common Equity Tier 1 (CET 1) capital after adjustments	30,686,859
Common Equity Tier 1 (CET 1) capital	32,204,715
Equity capital (stated capital)/assigned capital	11,228,269
Reserve fund	1,609,484
Published retained earnings/(accumulated retained losses)	17,020,748
Published accumulated Other Comprehensive Income (OCI)	343,969
General and other disclosed reserves	2,002,245
Unpublished current year's profit/loss and gains reflected in OCI	-
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	
Total adjustments to CET 1 capital	1,517,856
Goodwill (net)	-
Intangible assets (net)	363,451
Others*	1,154,405
Additional Tier 1 (AT 1) capital after adjustments	-
Total additional Tier 1 (AT 1) capital	-
Qualifying additional Tier 1 capital instruments	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	
Total Adjustments to AT 1 Capital	-
Investment in own shares	-
Others (specify)	-
Tier 2 capital after adjustments	5,764,305
Total Tier 2 capital	5,808,825
Qualifying Tier 2 capital instruments	5,227,575
Revaluation gains	581,250
Loan loss provisions	
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	
Total adjustments to Tier 2	44,520
Investment in own shares	-
Others	44,520
Total Tier 1 capital	30,686,859
Total capital	36,451,164

CET 1 capital increased during the year primarily due to 2017 profits and CET 1 was further supported by reducing of interest rates during 2017, and the available for sale portfolio valued at market value which was higher than its cost.

Risk-weighted assets (RWAs)

The RWAs increased in 2017 primarily due to growth in loans and advances of the Bank.

Basel III computation of capital ratios

	Amount (LKR '000)
	Reporting period 2017
Total risk weighted assets (RWA)	275,070,097
RWAs for credit risk	249,965,714
RWAs for market risk	1,027,022
RWAs for operational risk	24,077,361
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	11.16
of which: capital conservation buffer (%)	1.25
of which: countercyclical buffer (%)	-
of which: capital surcharge on D-SIBs (%)	-
Total Tier 1 capital ratio (%)	11.16
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	13.25
of which: capital conservation buffer (%)	1.25
of which: countercyclical buffer (%)	-
of which: capital surcharge on D-SIBs (%)	-

Effective date for regulatory reporting of Basel III was 1 July 2017.

Computation of leverage ratio

Item	Amount (LKR '000)
	Reporting period 2017
Tier 1 capital	30,686,859
Total exposures	397,992,993
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	377,109,386
Derivative exposures	-
Securities financing transaction exposures	-
Other off-balance sheet exposures	20,883,607
Basel III leverage ratio (%) (Tier 1/total exposure)	7.71

Key regulatory ratios – capital and liquidity

Item	Minimum requirement	Reporting Period 2017	Previous reporting period 2016
Regulatory capital			
Common equity Tier 1 (LKR '000)	-	30,686,859	-
Tier 1 capital (LKR '000)	-	30,686,859	-
Total capital (LKR '000)	-	36,451,164	-
Regulatory capital ratios			
Common equity Tier 1 capital ratio (%)	5.75	11.16	-
Tier 1 capital ratio (%)	7.25	11.16	-
Total capital ratio (%)	11.25	13.25	-
Leverage ratio* (%)	3.00	7.71	-
Regulatory liquidity			
Statutory liquid assets			
Domestic banking unit (LKR '000)	-	77,783,808	64,070,857
Off-shore banking unit (USD '000)	-	41,711	34,342

Item	Minimum requirement	Reporting Period 2017	Previous reporting period 2016
Statutory liquid assets ratio			
Domestic banking unit (%)	20	23.57	22.68
Off-shore banking unit (%)	20	37.08	26.24
Liquidity coverage ratio – LKR (%)	80	160.30	129.27
Liquidity coverage ratio – All currency (%)	80	121.94	111.11

* Leverage ratio for regulatory reporting purpose will be effective from 1 January 2018.

Current and future capital requirement

Capital planning

Overview and assessment process

The capital structure of banks is rigorously regulated by CBSL in view of the systemic risk that a bank failure carries and loss it can cause to the depositors and the consequent cost of bail-outs by the Government. Basel III focuses on risk management in the Bank and intends to link the business profile of the Bank to the risk profile and subsequently to the regulatory capital. There is thus an automatic calibration of business profile to the regulatory capital. Internal capital can, however, be different from the regulatory capital, which links require equity cushion to the risk profile of the Bank.

In practical terms, the role of capital in the Bank is to provide creditor protection. In other words, the role of capital is to act as a buffer against future unexpected losses, thereby protecting depositors and its other creditors. The amount of capital the Bank would hold therefore depends on the Bank's risk appetite, loss distribution (whether arising from credit, market or operational or any other kinds of risk), among other things.

The Finance Department prepares the budget with inputs from branches and business units. The budget prepared is sent to the CEO for challenge and review. After a thorough review of the plan, and a "go-ahead" signal, the Management submits the budget to the Board of Directors for final approval.

The Bank was well capitalised, with a total Capital Adequacy Ratio of 13.25% and a Tier 1 capital ratio of 11.16%, in excess of the mandatory regulatory requirements of the Basel III Tier 1 ratio of 7.25%, and total capital ratio of 11.25%.

Overall, the Statement of Financial Position remains strong and asset quality continued to gain traction with the net non-performing loan ratio reducing to 4.42%.

Sources of capital

The Bank raises the eligible Tier 1 as well as Tier 2 capital as and when required in order to expand the business and at the same time to meet the regulatory and internal capital requirements.

The following elements constitute the capital of the Bank, as deemed eligible by CBSL:

Tier 1 capital (core capital)

Core Capital items are:

Share capital, share premium, statutory reserve funds, published retained profits, General and other reserves, Surpluses/losses after tax arising from the sale of fixed and long-term investments.

Tier 2 capital (supplementary capital)

Supplementary capital includes, approved revaluation reserves, general provisions, Hybrid (debt/equity) capital items and Approved subordinated term debts.

Total capital base is the summation of the core capital (Tier 1) and the supplementary capital (Tier 2) less the necessary deductions.

Risk exposures in line with strategic plan

Strategic Plan 2017-2020

- The Bank has devised a four-year Strategic Plan establishing targets across business segments. The business plan has been developed to double the Banking book over next four years at a Compound Annual Growth Rate (CAGR) of 20% and double profits by 2020 by taking into account the Bank's future growth outlook, average industry growth, peer growth and necessary inputs from CBSL published documents. Furthermore, the relevant macroeconomic parameters are factored in the calculations. Currently, the Bank employs a mix of top-down and bottom-up approach to arrive at the forecasts.

- b. Capital requirements have been planned in line with the Bank 2017-2020 strategic plan. A capital augmentation plan is prepared quarterly forecasting the capital requirement of the Bank for the next three year period.
- c. The capital augmentation plan is approved by the Board of Directors.
- d. In line with the Bank's 2017-2020 Strategic Plan, a LKR 6 billion debenture issue (with an option to further increase the issue size by LKR 4 billion) will be raised as Tier 2 capital during the first half of 2018.

Basel III minimum capital requirements and buffers

The Banking Act Direction No. 01 of 2016 introduced capital requirements under Basel III for licensed commercial banks commencing from 1 July 2017 with specified timeliness to increase minimum capital ratios to be fully implemented by 1 January 2019. The CAR to be maintained by a bank having less than LKR 500 Bn. is given below. The Bank's position as at 31 December 2017 is produced below which provides testimony on the ability of the Bank to meet the stringent requirements brought in by the regulator from current perspective.

Banks with assets less than LKR 500 Bn.

Ratios %	Bank's position as at 31 December 2017 %	Minimum capital ratio prescribed by CBSL by 31 December 2017 %	Minimum capital ratio prescribed by CBSL by 1 January 2019 %
Common equity Tier 1 including capital conservation buffer	11.16	5.75	7.00
Total Tier 1 including capital conservation buffer	11.16	7.25	8.50
Total capital ratio including capital conservation buffer	13.25	11.25	12.50

However, the Bank acknowledges the challenges associated with increasing demand on capital as per the roadmap given by CBSL and is mindful about the contributory factors that require in recording a healthy CAR in the ensuing period.

Assessment of the adequacy of Bank's capital commensurate with all material risks and other capital needs in relation to its current and future activities;

The risk profile assessment of the Bank includes the assessment of all material risks i.e. credit risk, market risk, operational risk, credit concentration risk, residual risk, interest rate risk in the banking book, liquidity risk, strategic risk, compliance risk and reputational risk.

The Bank has adopted the standardised approach (SA) for credit risk capital calculation under Pillar 1. Credit concentration in the corporate loan portfolio has been analysed using the Normalised Herfindahl-Hirschman Index (HHI) method and an adjustment to the capital charge is administered in the light of concentration of the Bank's business in large size borrowers.

The Bank has adopted the standardised measurement Approach (SMA) for calculation of the market risk capital charge. The capital charge for market risk continues to remain low, considering the limited market operations of the Bank and exists due to interest rate risk, equity risk and foreign exchange risk to a lesser extent.

With regard to operational risk, the Basic Indicator Approach (BIA) has been adopted under Pillar 1. The Bank is also geared to move into the Alternative Standardised approach for operational risk calculation and has already done parallel computation which has shown improved capital adequacy requirement under operational risk.

Liquidity risk is managed by Treasury, Risk Management Unit and ALCO using the gap assessment and ratios. To ascertain the current liquidity position, the Bank has conducted strong stress tests to gauge the Bank's position under liquidity crunch of different intensities. The capital charge for interest rate risk in the banking book is calculated using the Economic Value of Equity (EVE) approach. Overall, the ALM process in the Bank is well-managed and monitored using various indicators of liquidity and interest rate risks.

For reputational and strategic risk, detailed scorecards have been developed and the scorecard results have been calibrated to capital charge. The result of strategic risk assessment indicates that the Bank has a dedicated strategy and planning unit under finance and is well-capitalised to achieve its strategic objectives going forward. The reputation risk assessment shows that the Bank's reputation which

took a beating after the deposit run in 2008 has improved significantly signified by its high customer retention rate. The Board and Senior Management critically review the strategic direction of the Bank at the time the Strategic Plan are prepared and approved. Risk management is an integral part of the strategic planning process.

The Bank uses voting, non-voting shares and debentures as main instruments to raise capital. Main features of instruments used as part of Regulatory Capital is given below:

Description of the Capital instrument	Ordinary voting shares	Ordinary Non-voting shares	Debenture Issue – 2013 (5 years)	Debenture Issues – 2016 (5 years and 7 years)
Issuer	Seylan Bank PLC	Seylan Bank PLC	Seylan Bank PLC	Seylan Bank PLC
Unique Identifier (e.g. ISIN or bloomberg identifier for private placement)	SEYB-N	SEYB-X	SEYB-D	SEYB-D
Governing Law (s) of the Instrument	Provisions in the Banking Act, Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, provisions of the Companies Act No. 07 of 2007 and The Articles of Association of the Bank	Provisions in the Banking Act, Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, provisions of the Companies Act No. 07 of 2007 and The Articles of Association of the Bank	Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, provisions of the Companies Act No. 07 of 2007 and The Articles of Association of the Bank, Prospectus of the Debenture Issue and the Trust Deed	Rules of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, provisions of the Companies Act No. 07 of 2007 and The Articles of Association of the Bank, Prospectus of the Debenture Issue and the Trust Deed
Original date of issuance	April 1988	September 2003	22 February 2013	15 July 2016
Par value of instrument	N/A	N/A	LKR 100.00 each	LKR 100.00 each
Perpetual or dated	N/A	N/A	dated	dated
Original maturity date, if applicable	N/A	N/A	21 February 2018	15 July 2021
Amount recognised in regulatory capital (in '000 as at the reporting date)	7,319,076	3,909,193	400,000	4,827,575
Accounting classification (equity/liability)	Equity	Equity	Liability	Liability
Issuer call subject to prior supervisory approval				
Optional call date, contingent call dates and redemption amount (LKR '000)	N/A	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A
Coupons/dividends	Dividend as decided by the Board annually	Dividend as decided by the Board annually	Fixed Interest rate	Fixed and floating interest rates
Coupon rate and any related index	N/A	N/A	Refer note 40	Refer note 40
Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible

Legal risk

Legal risk arises from failure to comply with statutory and regulatory regulations, uncertainty of the outcome of all litigation and probable adverse consequences resulting from deficient documentation.

The Bank manages these legal risks effectively through the Legal Department where all contracts and security documentation is legally vetted taking into consideration the applicable laws and regulations. Interpretation of provisions of statutes that may be applicable are referred to the Legal Department by the business lines thus minimising the risk of non-compliance with laws and regulations.

Compliance risk management

The Compliance Department acts as the control point in monitoring and coordinating all regulatory requirements. It ensures that the Bank complies with all laws, regulations and best practices recommended by competent authorities. It is also a key responsibility of Compliance Department to ensure prevalence of a compliance driven culture within the Bank.

Compliance Department, in addition to its routine communication with the Board Integrated Risk Management Committee (BIRMC) which is its direct reporting line provides updates to the Board of Directors on the overall status of compliance of the Bank at their monthly meetings. Compliance related matters are also discussed at the quarterly meetings of the Board Governance and Compliance Committee of which the Compliance Officer is a member.

Strategic risk management

Strategic risk is the possibility of current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes.

The Bank has developed a four-year Strategic Plan (2017–2020) and is in the process of implementation. Corporate Management and the Board takes the responsibility to lead the Bank, while maintaining its vision and mission in order to minimise the failures in the business environment.

In pursuing the Bank's strategic goals and business objectives, the Bank has established clear communication channels at all levels of the Organisation, allocate systems for operations and business lines and increase staff capabilities through staff development and recognition process.

Reputation risk management

Reputation Risk is a threat or danger to the goodwill or standing of a business or entity. As risk mitigating actions, the Bank has established sound policies and procedures such as customer complaint management, whistle-blowing policy to maintain the goodwill in a positive manner. For the purpose of extracting customer grievances, each business unit has a record of the same for the review of the inspections and responses, while such complaints are allowed to be made using telephones under the whistle-blowing policy. The Bank had a very few incidents on this type of events and successfully solve them without any damage.

The Bank also recognise the importance of making a positive contribution to society by promoting Corporate Social Responsibility (CSR) through ethical banking practices, environmental awareness and contribution to the community. Accordingly, the Bank's Board Sustainability Committee, quarterly monitors the progress of CSR contribution and its effectiveness.

Achievements during 2017 and outlook for 2018

1. Full roll-out of the Loan Origination System (LOS) across the network, thereby reducing the time taken to evaluate/approve facility, thus improving the quality of credit.
2. Setting up of SME Hubs on a regional basis with the objective of improving quality of credit evaluation and improving efficiency and reduce turnaround time (TAT) for SME credit approvals.
3. The issuance of lending guidelines, covering specific economic activity/industry segment, has enabled the business units to evaluate the counterparty risk.
4. Implementation of effective credit risk review process, where 36% of the value of advances granted have been independently reviewed and identified shortcomings mitigated to improve the credit quality.
5. Rigorous monitoring of non-performing advances by the Executive Credit Risk Management Committee enabled to reduce the NPA ratio.
6. Several training programmes were internally designed and conducted to improve the risk taking ability of the staff of business units.
7. Risk Officers to be assigned to area offices during 2018 with a view to broad basing risk oversight of medium size credit propositions.
8. Use data analytics to identify credit default behaviours in the product portfolio.
9. Obtain regulatory approval to compute capital adequacy of operational risk under the alternative standardised approach.
10. Upgrade the Bank's ALM and VaR systems used to monitor market risk of the Bank.
11. The Bank has obtained the services of KPMG India to conduct a gap study to assess the Bank's readiness to move to the IRB approach. The assignment is in progress and the final report is expected during the first half of 2018.
12. Bank has also commenced an independent validation of the existing credit rating models to facilitate introducing a risk based pricing mechanism in generating loans in 2018.

Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories

Item	Amount (LKR'000) as at 31 December 2017				
	a	b	c	d	e
	Carrying values as reported in published Financial Statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets	408,125,839	410,327,230	410,327,230	6,384,300	407,971
Cash and cash equivalents	8,319,384	8,898,355	8,898,355	-	-
Balances with Central Bank	19,119,843	19,119,843	19,119,843	-	-
Placements with banks	1,455,115	1,454,925	1,454,925	-	-
Derivative financial instruments	60,165	-	-	-	-
Other financial assets held for trading	7,939,213	7,809,114	7,809,114	6,384,300	-
Securities purchased under resale agreements	1,750,855	1,749,752	1,749,752	-	-
Loans and receivables to banks	-	-	-	-	-
Loans and receivables to other customers	280,861,907	283,014,474	283,014,474	-	-
Financial investments – available for sale	53,507,037	-	-	-	-
Financial investments – held to maturity	21,529,778	70,365,713	70,365,713	-	44,520
Investments in subsidiaries	1,153,602	1,153,602	1,153,602	-	-
Investments in associates and joint ventures	-	-	-	-	-
Property, plant and equipment	4,436,108	4,436,108	4,436,108	-	-
Investment properties	-	-	-	-	-
Intangible assets	363,451	363,451	363,451	-	363,451
Deferred tax assets	-	-	-	-	-
Other assets	7,629,381	11,961,893	11,961,893	-	-
Liabilities	373,919,916	-	-	-	-
Due to banks	27,052,972	-	-	-	-
Derivative financial instruments	571,557	-	-	-	-
Other financial assets held for trading	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
Due to other customers	307,098,902	-	-	-	-
Other borrowings (Including Repos)	16,654,369	-	-	-	-
Debt securities issued	12,494,025	-	-	-	-
Current tax liabilities	1,022,378	-	-	-	-
Deferred tax liabilities	1,359,044	-	-	-	-
Other provisions	-	-	-	-	-
Other liabilities	6,521,559	-	-	-	-
Due to subsidiaries	1,145,110	-	-	-	-
Subordinated term debts	-	-	-	-	-

Item	Amount (LKR'000) as at 31 December 2017				
	a	b	c	d	e
	Carrying values as reported in published Financial Statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Off-balance sheet liabilities	99,500,731	143,743,031	135,737,554	-	-
Guarantees	27,504,396	27,504,396	25,267,544	-	-
Performance bonds	-	-	-	-	-
Letters of credit	10,387,636	10,387,636	10,382,656	-	-
Foreign exchange contracts	(940,322)	46,167,503	46,167,503	-	-
Other contingent items	14,509,191	13,515,993	6,452,823	-	-
Undrawn loan commitments	47,467,028	46,167,503	47,467,028	-	-
Other commitments	572,802	-	-	-	-
Shareholders' equity					
Equity capital (stated capital)/ assigned capital	11,228,269	11,228,269	-	-	-
of which amount eligible for CET 1	5,799,630	4,864,689	-	-	-
of which amount eligible for AT 1	-	-	-	-	-
Retained earnings	17,178,024	17,483,546	-	-	-
Accumulated Other Comprehensive Income	-	-	-	-	-
Other reserves	-	-	-	-	-
Total shareholders' equity	34,205,923	33,576,504	-	-	-

Column a. presents the assets, liabilities and equity on standalone SLFRS basis. Pillar III disclosures at 31 December 2017 are presented in accordance with regulatory capital concepts and rules.

a. Explanations of differences between accounting and regulatory exposure amounts

(Total assets shown in column A and B above)	LKR '000
Total assets as per carrying values reported in published Financial Statements (Column A)	408,125,839
Total assets as per carrying values under scope of regulatory reporting (Column B)	410,327,230
Difference	2,201,391

Difference arises due to fair value adjustments on investments, impairment on loans and receivables and the classification changes of the line items of the balance sheet.

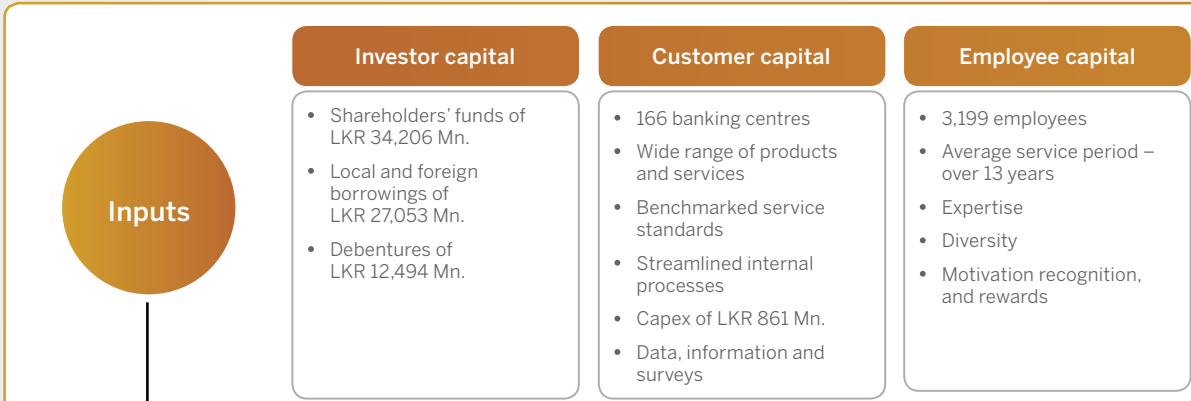
b. Methodologies used in valuation of financial assets

Financial assets-instrument type	Valuation technique	Inputs used for valuation
Treasury Bills	Price formula	Based on market yield published by CBSL
Treasury Bonds	Price formula	Based on market yield published by CBSL
Sri Lanka Development Bonds	Price formula	Similar instrument's rate (LIBOR)
Quoted Equities	Closing share price	Closing share price (CSE)
Unquoted Equities	Net assets per share	Net assets per share as per latest Audited Financial Statements
Debentures	Price formula	Similar instrument's yield (Treasury Bond yield)

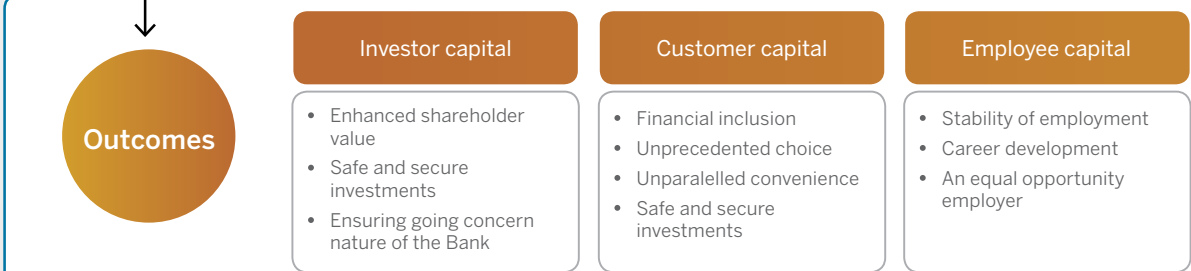
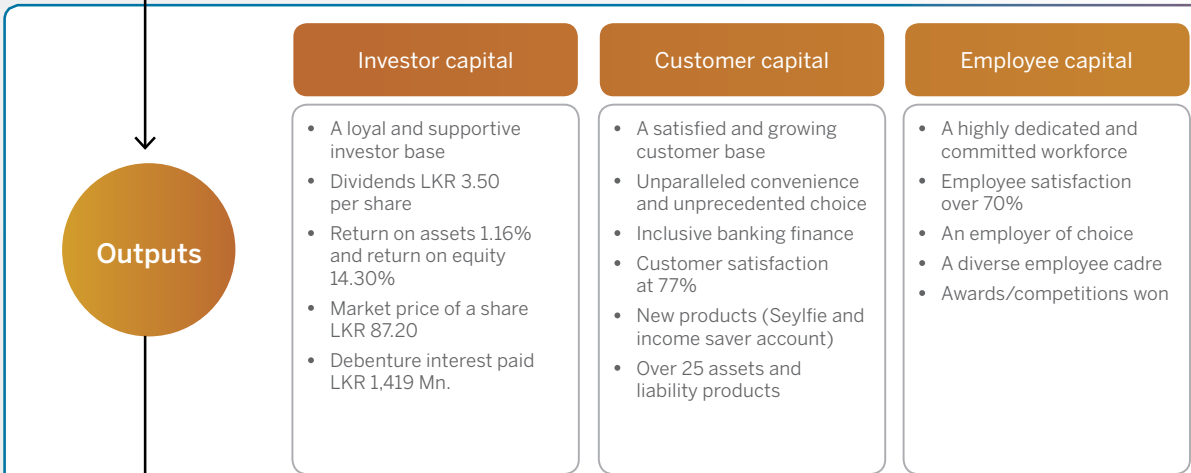
The details on valuation frame work, the valuation models used by the Bank and fair value hierarchy are disclosed in Note 5 to the Financial Statement.

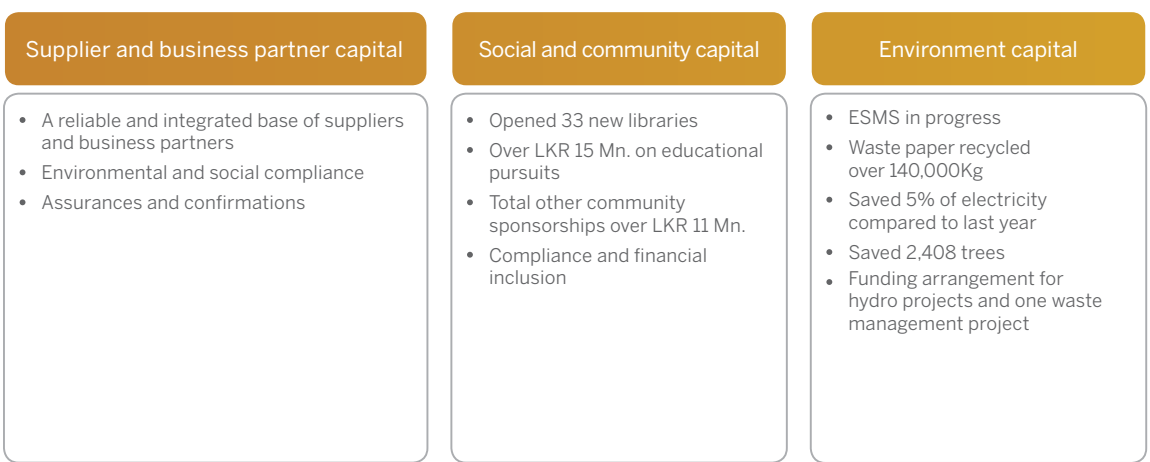
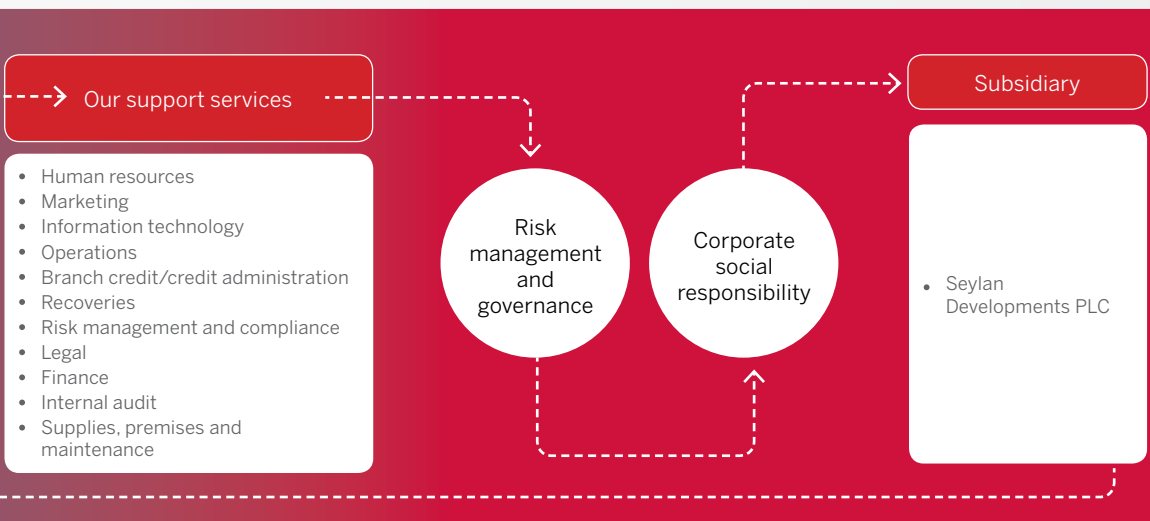
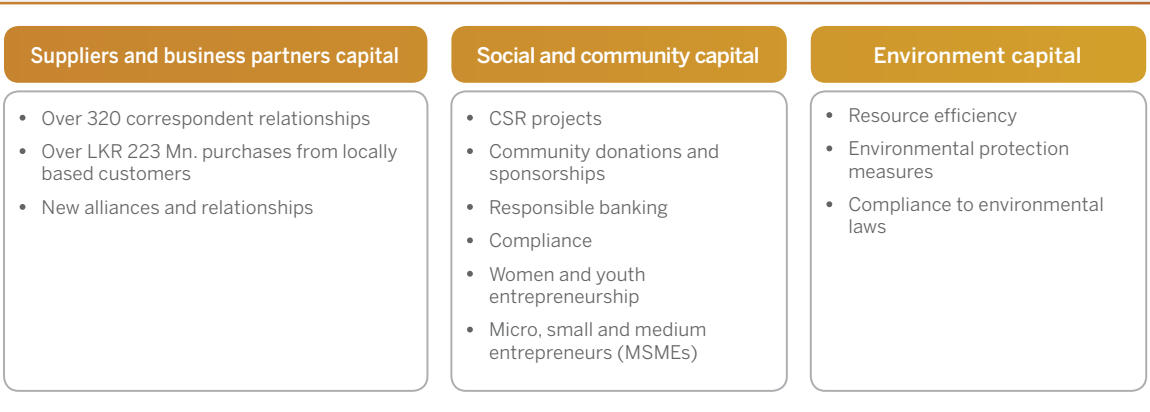
Our Value Creation Model

The development of retail banking, improving operating efficiencies at branches, enhancing the approach to commercial banking, expanding the attention to SMEs and transforming to a digital bank are our key strategic priorities for 2017-2020. The Bank's sustainability which is integral to its business, is governed by its corporate ethics and values



Institutional Capital





How we create value

(A sustainable model)

Access to international capital, a corporate culture that values its service to all stakeholders, business ethics and integrity are vital components in Seylan's approach to adding value to its customers

As a financial services intermediate, we connect individuals and organisations who require financial services to enhance their living standards and sustain and grow their enterprises. These financial services include deposit of money for safe keeping and earning a return thereon, borrowing funds for consumption and investment and transactional banking requirements such as cash management, trade finance, factoring, currency services etc.

The Bank provides these services through its six business units namely branch banking, corporate and offshore banking, retail banking, treasury, international and trade finance and project finance. These business units are ably assisted by several support services units. In the process, the Bank makes use of various forms of "Capital" from a large number of stakeholders, as depicted in the value creation model given on page 118.

These services generate two main forms of income for the Bank – net interest income and fee and commission income.

Institutional capital

Institutional capital comprises intellectual property, knowledge, systems and procedures, brand value, corporate culture, business values, ethics and integrity. As an integral part of our value creation model, it plays a key role in the Bank in leveraging all other forms of capitals for effective, efficient and productive use in achieving corporate goals and deliver value to its stakeholders.

Corporate culture and value

Seylan Bank with its tagline "The Bank with a Heart" has since its inception, instilled a value-based culture focussed on being flexible, customer friendly and practising its business in an ethical and caring environment. This differentiated our Bank within the industry and enhanced stakeholder value.

Systems, processes and technologies

In today's context, it is imperative that the Bank leverages digital tools to afford maximum

convenience to the customers and enhance their experience. We have been successful in this regard over the past several years when we have deployed digital technology for innovative product development, to enhance our reach by developing a number of alternate delivery channels, for upgrading service standards and streamlining and making internal processes efficient to increase productivity. These initiatives have helped the Bank to differentiate its position, particularly in the

domain of digital technology. We are aware of the increasing preference for social media amongst our target groups and will therefore continue to invest further in the digital domain as envisaged in our Vision 2020.

Seylan meets the changing needs of its customers by digitalisation and innovative product development

Compliance

The Bank takes very seriously its fiduciary responsibility to be compliant with the legal provisions and regulatory directions governing our operations. This duty has been embedded into the culture of the Bank at all levels amongst our staff, in conducting our business without compromising the high standard of business ethics that underscores all our activities.

Business ethics and integrity

The Bank's internal control system encompasses all its operations. It ensures accuracy and completeness of information and is geared towards minimising errors, omissions and fraud. The efficacy of internal controls in the conduct of our business is an essential component of our commitment to accountability, compliance, practising the highest standards of business ethics and the all-encompassing integrity of our operations.

It is the cornerstone in presenting our Bank as a reliable and long-term business partner.

Anti-corruption

It is a business imperative of the Bank to prevent and eliminate any semblance of corrupt behaviour. To this end, the Bank has written a Code of Conduct that includes provisions relating to anti-corruption. These principles are imbued amongst the staff and are reinforced through continuous review and updates. The application of these principles is monitored throughout all business operations. We are proud of our unblemished record in this area.

Why we create value

(Our ultimate goal)

The Bank's desire to serve its stakeholders requires the continuous improvement of its products to meet the needs of its customers and to provide services that satisfy the most discerning amongst them

Our new strategic plan

2017 saw the journey that began in 1987, step up a leap, with the inception of our new strategic plan 2017-2020.

The key pillars of the strategic plan ("Seylan 2020") focus on the enhancing our approach to retail and SME customers, improving the CASA, making our branches smaller and lean and transforming the Bank to a digital bank.

We are confident that this 4-pillar approach will lead to turbo charging our business growth while building dynamic and efficient customer relations.

The fundamental goal of the strategic measures that are being taken is to make Seylan Bank a stronger and dynamic bank that is well positioned to pursue growth opportunities through its increasing branch structure and well-trained personnel.

We believe we will be able to achieve this through,

- Having sufficient capital levels obtained at optimum cost to support the growth;
- Focussing our business mix being stable, consistent and sustainable;
- Being more visible in the market place with our high calibre personnel; and
- Developing our digital platform to deliver efficiencies in our interactions with our customers.

Digitalisation means remote access and faster processing, which caters to the demands of the present and the future, whilst maintaining safety of funds.

Our strategic human resource agenda will see the deployment of structured learning programmes to enhance the skills of our staff, which in turn will lead to placing them in productive roles that lead to increased customer participation and consequent revenue.

The transformation of the Bank to one with an emphasis on digitalisation, will improve our customers' experience and convenience. Improvements in Internet banking, expansion of

our ATM network and the provision of services through the Call Centres, will mean that customers do not have to undergo the inconveniences associated with travelling to and from our extensive branch network. However, the presence of an increased branch network means that the customers, who desire to physically attend a branch to conduct their business, are not deprived of this service.

We have moved towards building a robust credit assessment capability that will further improve our monitoring and follow up. The setting up of the outbound call centre to centralise the monitoring and collections processes, will bring increased focus on mitigation of losses and prompt early action to address problem advances (loans).

The launch of new products, similar to Money Market, Income Saver, Seylfie, Mpay etc., are symptomatic of a dynamic Bank that caters innovatively to the needs of customers.

Spanning the period 2017-2020, this blueprint (strategic plan) sets the Bank on course to achieve a set of significant milestones, which taken as a whole, will re-position it to not only be relevant in the coming era, but also make it stronger and sustainable.

What creates value (Healthy relationships)

Sustainability of the Bank's operations is reliant on the sustainability of its relationships with its customers, its investors and its multiple stakeholders

Bank's approach to sustainability

Sustainability is integral to the Bank's business. Rather than approaching it as a one-off exercise, it forms a key element of the Bank's strategy. The Bank continues to consciously manage the impact of its operations by being open, transparent and accountable in its sustainability initiatives.

Its CSR strategy is amalgamated with the core business strategies and implemented to meet the following sustainability parameters:

- Sustainable value creation;
- Service beyond banking;

- Recognition of the value of human capital;
- Connecting with communities;
- Long lasting ethical relationships;
- Minimising our impact on the environment.

Governance, risk management and sustainability stewardship

The Bank's sustainability is governed by its corporate ethics and values. The governance framework is set out in detail in the "Corporate Governance" segment of the Annual Report.

Risk is an integral part of any business. It is the Bank's aim to mitigate its exposure to risks and deliver optimum long-term shareholder value by managing the Bank's exposure to such risks. The regulator recommended risk framework is in place to manage the risk on an integrated basis. The details of the approach are explained in the Risk Management and Governance Structure section of this report.

The Board Sustainability Subcommittee is responsible for developing the sustainability strategies in line with the core business strategies of the Bank. The Management Committee, which is led by Senior Management and responsible for all economic, social and environmental aspects of the Bank's operations, also monitors and oversees the sustainability processes of the Bank.

Our approach to responsible banking is governed by the regulatory directions issued by the Central Bank of Sri Lanka (CBSL), the Colombo Stock Exchange (CSE) and industry codes of best practice.

Internal policies for responsible banking	Regulatory directions and voluntary code of practice adopted by the Bank for responsible banking
<ul style="list-style-type: none"> • Staff code of conduct • Information security policy • Credit policy • Recovery policy • Treasury investment policy 	<ul style="list-style-type: none"> • Know your customer policy • Anti-money laundering policy • Customer charter • Misleading and unethical advertisements • Display of interest rates, exchange rates and service charges
<ul style="list-style-type: none"> • Asset and liability policy • Sustainability policy 	<ul style="list-style-type: none"> • Inadequate/incorrect disclosures/press statements • Code of Best Practices on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the SEC
<ul style="list-style-type: none"> • Integrated risk management policy 	<ul style="list-style-type: none"> • Approval of CBSL for the authority to accept deposits and do other banking functions
<ul style="list-style-type: none"> • Whistle-blowing policy • Related party transactions policy 	<ul style="list-style-type: none"> • Accounting Standards – SLFRS/LKAS

Stakeholder engagement

The Bank is committed to engaging with internal and external stakeholders on a daily basis. Internal stakeholders, primarily employees, are vital for the efficient functioning of the Bank. They also form an essential conduit in establishing and maintaining relations and providing the Bank's services to its external stakeholders who are essentially the customers and shareholders of the Bank.

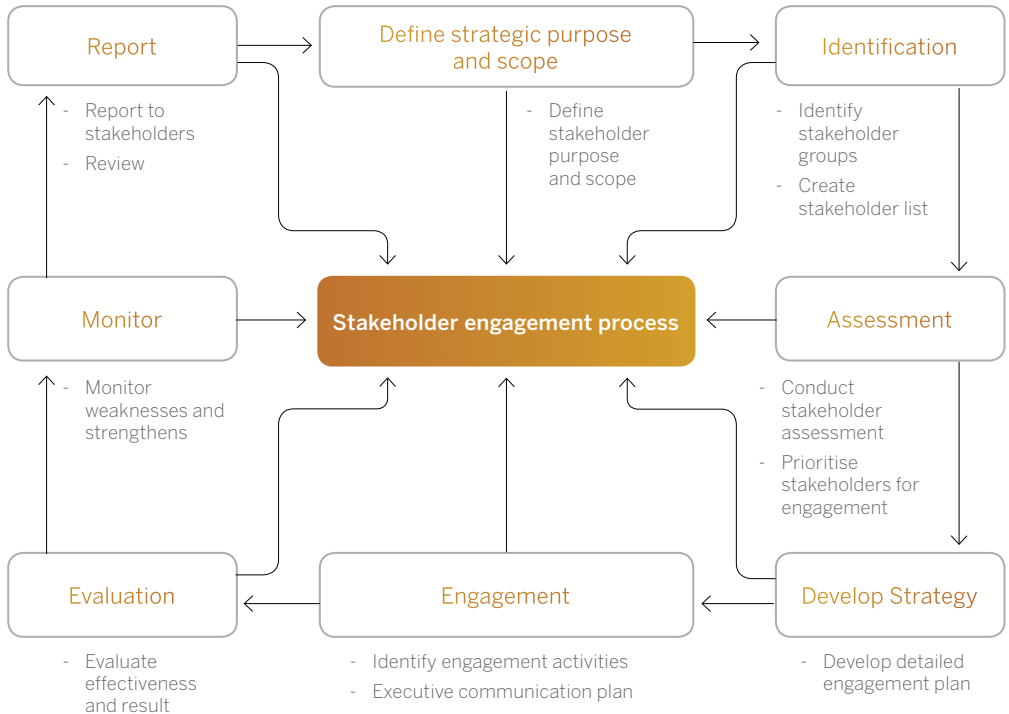
Stakeholder feedback is an aspect of communication which the Bank considers extremely important, so much so that Investor/Stakeholder Feedback forms are attached to this report. Stakeholders are encouraged to complete these forms and return them to the Bank for evaluation and action as may be required.

Stakeholder	Key topics and concerns raised	How the Bank responded to such topics and concerns	Method of engagement	Frequency of engagement
Investors	<ul style="list-style-type: none"> Financial performance of the Bank and business growth Sustainable growth Liquidity management Governance and risk management framework Business overview, business strategy and challenges. Asset quality of the Bank. Behaviour of key economic indicators such as interest rates, exchange rates, etc. 	<ul style="list-style-type: none"> Manage the business effectively and efficiently to deliver sustainable wealth Implement effective risk management policies and adequate internal controls Protect and facilitate stakeholder rights and ensure fairness and transparency Ensure regulatory compliance and responsible banking More details on individual engagement activities are given under Investor Relations 	<ul style="list-style-type: none"> Annual reports Interim Financial Statements Annual General Meeting Extraordinary General Meetings Investor presentation Media releases Announcements submitted to the Colombo Stock Exchange Face-to-face discussions Bank website 	<ul style="list-style-type: none"> Annually Quarterly Annually As and when required As and when required As and when required As and when required As and when required Regularly
Customers	<ul style="list-style-type: none"> Product Innovation Make banking convenient and flexible Level of customer service Availability of branches, ATMs, CDMs Product pricing (interest rates and fees and charges) Service quality 	<ul style="list-style-type: none"> Initiated Relationship officer and door step banking Recruited outbound sales force Appointed dedicated staff to enhance service quality Opinions and concerns of customers are gathered through various forms of engagement Annual customer surveys to obtain feedback on satisfaction levels and improvements on products and services Make banking convenient and flexible by continuously expanding branches 	<ul style="list-style-type: none"> Banking centres ATMs/CDMs Call centres Student saving centres e-banking Bank website Customer satisfaction surveys Customer targeted workshops Customer complaints Social media channels 	<ul style="list-style-type: none"> Regularly Regularly Regularly Regularly Regularly Regularly Annually As and when required As and when required Regularly
Employees	<ul style="list-style-type: none"> Staff welfare Remuneration Retain existing talents Maintain work-life balance Motivation and recognition Career development 	<ul style="list-style-type: none"> Provide necessary training and development Effective performance appraisal system Maintain equal opportunity, human rights and conducive labour relations practices Measurements are undertaken to bring about work-life balance 	<ul style="list-style-type: none"> Staff meetings Performance reviews Discussion with unions "Seylan Banker" newsletter Intranet/circulars Internal circulars Latest updates through staff email Staff activities such as get-togethers, sports competitions 	<ul style="list-style-type: none"> As and when required Biannual/Annually Regularly Quarterly Regularly Regularly As and when required As and when required

Stakeholder	Key topics and concerns raised	How the Bank responded to such topics and concerns	Method of engagement	Frequency of engagement
Suppliers and Business Partners	<ul style="list-style-type: none"> • Fair pricing • Quality of the suppliers goods and services • Operational efficiencies in the procurement process • Transparency and equal opportunity in the selection process of the suppliers 	<ul style="list-style-type: none"> • Comprehensive and transparent procurement policy with adequate controls • Regular engagement with suppliers to identify and resolve issues and build long-lasting relationships 	<ul style="list-style-type: none"> • Onsite service representatives • Visits and meetings • Official communication (Letters, Calls etc.) • Tender invitations • Suppliers registration 	<ul style="list-style-type: none"> Regularly As and when required As and when required As and when required Annually
Community	<ul style="list-style-type: none"> • Long-term value generation to mass community • Fostering education • Inclusive financing • Development of youth and women entrepreneurs • Avail proximity to bank and foster financial literacy 	<ul style="list-style-type: none"> • Project to help students to excel in quality education and enhance computer literacy • Focus Micro and SME and finance their development needs • Identify youth and women entrepreneurs for appropriate financing while introducing simple financial products • Promote sales oriented banking service from branch network and promote e-banking with strengthened information security 	<ul style="list-style-type: none"> • "Seylan <i>Pahasara</i>" Island-wide library project • Re-visiting "Seylan <i>Pahasara</i>" library project • Promote refinance and subsidy loan schemes • In-kind donations on numerous social and religious affairs 	<ul style="list-style-type: none"> Regular intervals Regular intervals Regularly On request
Environment	<ul style="list-style-type: none"> • Climate financing • Mitigate negative impact arising from advancing and enhance positive impact • Reduce greenhouse gas emission 	<ul style="list-style-type: none"> • Create awareness and build capacity to implement ethical environmental and best social practices across stakeholder domains • Hydro projects finance and one waste management project creating opportunity to green financing • Persuade conservation and influence environmental best practices transitioning from conventional work to green • Efficient use of natural resources • More than 10,000 credit appraisals routed through loan origination system • Conventional tools replaced with power effective saving measures • Management and control over transportation 	<ul style="list-style-type: none"> • Establishment of Environmental and Social Risk Management System in progress • Various in-kind donations and CSR • Persuade green dialogue in credit proposals • Action taken to reduce, reuse and recycle paper, reduce electricity, water consumption and minimise emissions 	<ul style="list-style-type: none"> Regularly Regularly Regularly Regularly

Stakeholder engagement process

At Seylan Bank, we engage with a variety of stakeholders, each with different aspirations. To identify our main stakeholders, we utilise a stakeholder engagement process. Through a comprehensive engagement process, we address economic, social, and environmental issues, while distributing responsibility across the Bank.



Materiality

The concept of materiality reporting on sustainability extends beyond the economic to include those affecting the environmental and social aspects. This report concentrates on those aspects that impact the current operations significantly, are important to the stakeholders and have an influence on the future.

Materiality assessment

Through this report, we aim to address the issues of our stakeholders and update interested parties on our progress as a responsible Bank in a clear, comprehensive, accessible format. We consider issues to be “material” when they have a direct or indirect impact on our stakeholders’ decisions to do business with us. With regard to this, the sustainability report reflects the Bank’s significant economic, environmental, and social impacts that could substantively influence the decision making process of stakeholders.

The materiality assessment is based on aspects that are important to our stakeholders and to the Bank itself. Factors that are considered in the assessment include:

- The degree of influence the Bank has over each aspect
- The extent to which the resources in question are used in Bank’s operations
- The extent of various stakeholder interactions and their levels of expectations
- The degree of responsibility that should be demonstrated by a responsible corporate citizen
- The impacts arising from the activities of customers and other contributors to our supply chain
- The degree of value that the Bank can deliver in relation to each aspect.

The Bank follows a systematic process to determine the materiality of issues to be reported. The following table depicts the level of significance for each economic, environmental, and social aspect, as considered from the perspective of the Bank and its stakeholders.

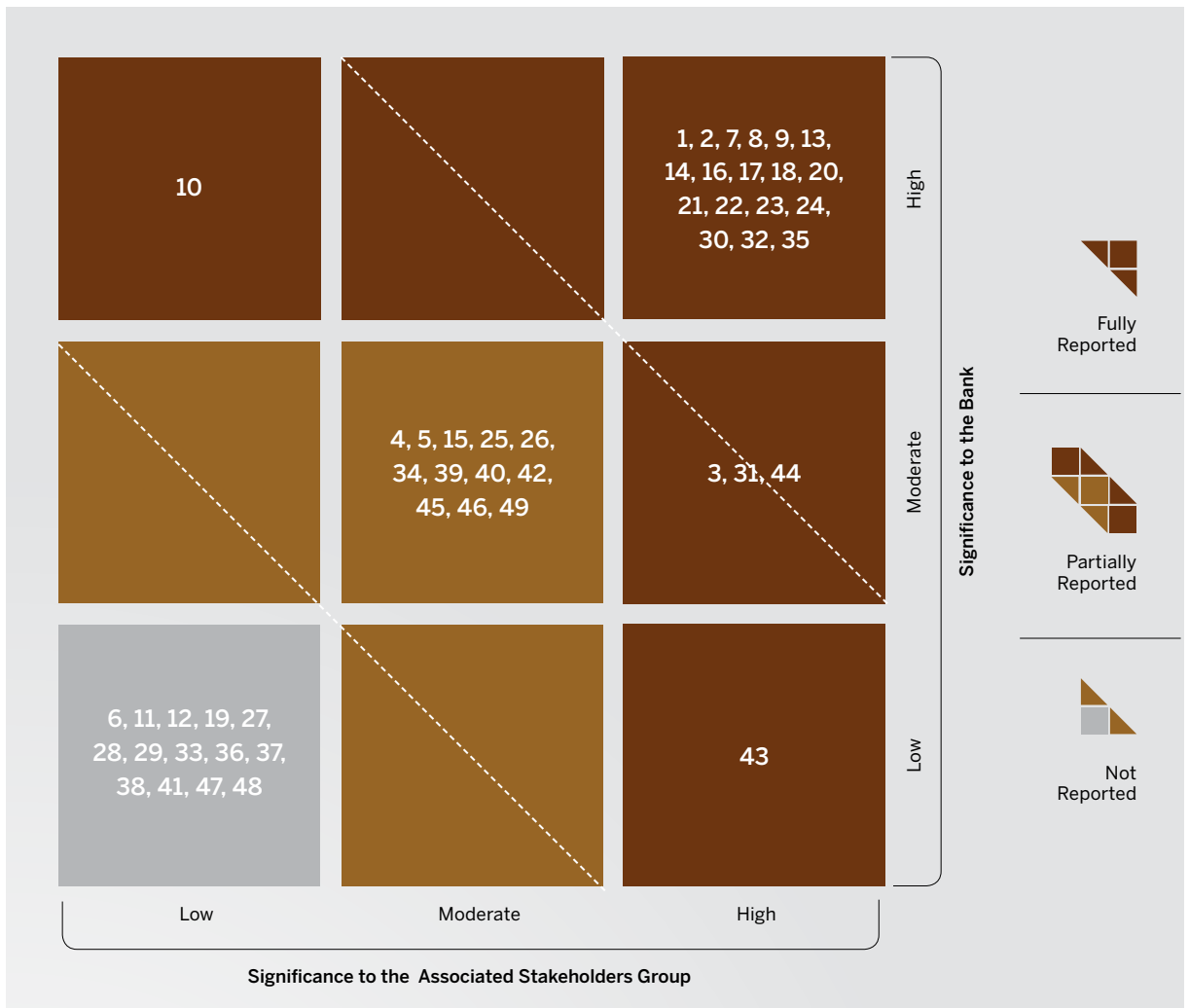
Aspect	Materiality			Relevant indicators (GRI)	Aspect boundary						
	Overall bank	Associated stakeholders	Reporting/not reporting		Internal			External			
					Employees	Investors	Customers	Community	Environment	Suppliers and business partners	
Economic	1. Economic performance	H	H	✓	G4 – EC1, EC3, EC4		✓				
	2. Market presence	H	H	✓	G4 – EC5-EC6		✓				
	3. Indirect economic impact	M	H	✓	G4 – EC7, EC8		✓		✓		
	4. Procurement practices	M	M	✓	G4 – EC9						✓
Social: product responsibility	5. Customer health and safety	M	M	✓	G4 – PR1:PR2					✓	
	6. Product and service labelling	L	L	*	-						
	7. Marketing communications	H	H	✓	G4 – PR6:PR7					✓	
	8. Customer privacy	H	H	✓	G4 – PR8					✓	
	9. Compliance	H	H	✓	G4 – PR9						✓
	10. Product portfolio	H	L	✓	G4 – FS6, FS7, FS8					✓	
	11. Audit	L	L	*	-						
	12. Active ownership	L	L	*	-						
Social: labour practices and decent work	13. Employment	H	H	✓	G4 – LA1, LA2, LA3	✓					
	14. Labour/management relations	H	H	✓	G4 – LA4	✓					
	15. Occupational health and safety	M	M	✓	G4 – LA5	✓					
	16. Training and education	H	H	✓	G4 – LA9:LA10	✓					
	17. Diversity and equal opportunity	H	H	✓	G4 – LA12	✓					
	18. Equal remuneration for men and women	H	H	✓	G4 – LA13	✓					
	19. Supplier assessment for labour practices	L	L	*	-						
	20. Labour practices grievance mechanisms	H	H	✓	G4-LA16	✓					
Social: human rights	21. Investment	H	H	✓	G4 – HR2	✓					
	22. Non-discrimination	H	H	✓	G4 – HR3	✓					
	23. Freedom of association and collective bargaining	H	H	✓	G4 – HR4	✓					
	24. Child labour	H	H	✓	G4 – HR5	✓					
	25. Forced or compulsory labour	M	M	✓	G4 – HR6	✓					
	26. Security practices	M	M	✓	G4 – HR7	✓					
	27. Indigenous rights	L	L	*	-						
	28. Assessment – human rights	L	L	*	-						
	29. Supplier human rights assessment	L	L	*	-						
	30. Human rights grievance mechanisms	H	H	✓	G4 – HR12	✓					
Social: society	31. Local communities	M	H	✓	G4 – S01, FS13:FS14					✓	
	32. Anti-corruption	H	H	✓	G4 – S04, S03					✓	
	33. Public policy	L	L	*	-						
	34. Anti-competitive behaviour	M	M	✓	G4 – S07					✓	
	35. Compliance	H	H	✓	G4 – S08					✓	
	36. Supplier assessment for impacts on society	L	L	*	-						
	37. Grievances mechanisms for impacts on society	L	L	*	-						

Aspect	Materiality			Relevant indicators (GRI)	Aspect boundary					
	Overall bank	Associated stakeholders	Reporting/not reporting		Internal		External			
				Employees	Investors	Customers	Community	Environment	Suppliers and business partners	
Environment	38. Materials	L	L	* -						
	39. Energy	M	M	✓ G4 - EN3, EN6						✓
	40. Water	M	M	✓ G4 - EN8						✓
	41. Biodiversity	L	L	* -						
	42. Emissions	M	M	✓ G4 - EN19						✓
	43. Effluents and waste	L	H	✓ G4 - EN23						✓
	44. Products and services	M	H	✓ G4 - EN27						✓
	45. Compliance	M	M	✓ G4 - EN29						✓
	46. Transport	M	M	✓ G4 - EN30						✓
	47. Overall	L	L	* -						
	48. Supplier environment assessment	L	L	* -						
49. Environmental grievance mechanism	M	M	✓ G4 - EN34						✓	

* Not assessed for the reporting purpose due to remote and insignificant impact to both Bank and its stakeholders.

Ⓜ High Ⓜ Moderate Ⓜ Low

Materiality matrix



Our Value Creation Story

In our pursuit to deliver economic value to our stakeholders, the adoption and implementation of the Strategic Plan 2017-2020 paves the way to enhancing our presence in the banking industry. Innovative product development keeps the Bank relevant to the present day demands of its customers

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Responsible Corporate Citizenship

The Context

The economic conditions, both globally and locally, have not prevented the Bank from achieving sustained growth in its business and increasing its profitability

The global economy

The upswing in global economic activity is gathering strength. Year 2017 witnessed a growth higher than 2016 and growth in 2018 is projected to be even better. The advances in Europe, Japan, emerging Asia and Russia more than offset slow growth in the USA and the UK. However, inflation is below target in most advanced economies. The low fuel price in 2017 resulted in a sharp downturn in foreign earnings.

The oil exporting countries however, attempted to manage the pricing structure by controlling levels of production. The New York Stock Exchange continued its upward swing unperturbed by any of these factors. At the same time, there is apprehension amongst investors and traders on the sustainability of this apparent growth in the value of companies. A downturn in the markets could lead to substantial losses and a curtailment of money in circulation. The US Dollar and the Euro remain unchanged in real effective terms. The Japanese Yen has depreciated while the Sterling Pound has appreciated.

Future global economic outlook

Five of the world's largest economies accounted for about two-third of total global output in 2017. The political variables that are being propagated in these economies will act as impediments to the potential for growth.

Concentration of global economic output amongst few countries poses some risks to potential growth

There are key factors that could potentially impact on the positive outlook for emerging markets in the coming year which include a tightening of monetary conditions.

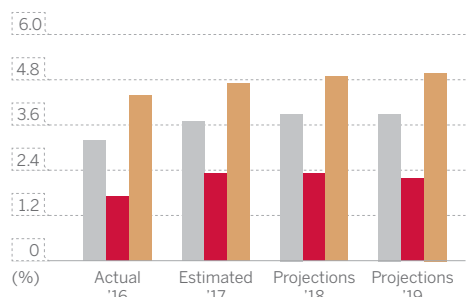
The exit of the United Kingdom from the European Union is not expected to have a significant direct impact on emerging markets in macroeconomic terms. However, the effects of the projected reduction in growth from 1.7% in 2017 to 1.5% in

2018, could filter through as the UK is an important trading partner and a source of funding for the emerging markets.

In addition, as interest rate hikes in advanced economies, divergence of monetary policy amongst major economies and gradual normalisation of monetary policies in advanced countries could have a flow through effect on the Sri Lankan economy:

World economic outlook projections

Legend:
 ■ World output
 ■ Advanced economies
 ■ Emerging markets and developing economies



Source: IMF January 2018

Foreign exchange

Over the year, several currencies including US Dollar, Japanese Yen and Chinese Yuan became weaker in Real Effective Exchange Rate (REER) terms, leading to their exports becoming more competitive which augured well for international trade. On the other hand, Euro and Sterling Pound ended stronger by end 2017 causing exports to be expensive and imports to be cheaper, leading to loss of trade competitiveness. As capital outflows increased, many developing countries, China in particular used their international reserves to stabilise exchange rates.

The Sri Lankan economy

Gross Domestic Product (GDP) for the third quarter 2017 recorded 3% YOY growth. The contribution made by the four major components of the economy were, Agriculture 7.6%; Industry 27.8%; Services 56.3% and taxes less subsidies on products 8.3%.

Agriculture was hit in the first quarter by continuing drought, causing a 3.3% decline in the third quarter of 2017. Tourist arrivals and earnings from tourism increased during the first ten months of 2017 compared to the corresponding period in 2016. The top five sources of tourist arrivals (India, China, UK, Germany and France) accounted for 52.4%.

Growth of the economy and the Central Bank's focus on non-debt creating methods of financing, augur well for the economic climate of the country

Workers' remittances continued to decline by 7.9% from the levels achieved in 2016. Sri Lanka's gross official reserves increased from USD 6.0 Bn. at the end of 2016 to USD 7.5 Bn. by end October 2017.

The Sri Lankan Rupee recorded a modest depreciation of 1.9% against the US Dollar during the year up to 28 December 2017 compared to a depreciation of 3.8% during 2016.

Inflation measured by the CCPI was 7.1% at December 2017.

According to the Asian Development Bank (ADB), Sri Lanka's growth in 2017 was estimated to be 4.5% with a growth rate of 5% predicted for 2018.

The country has been relatively stable and the Government is focusing on carrying out fiscal reforms, improving public financial management, increasing public and private investments, addressing infrastructure constraints, improving competitiveness and addressing service delivery.

The benefits of low oil prices were netted off by increased food imports to combat reduced agricultural output. On the positive side, the increase in tea prices offset to some degree the losses suffered through reduced agriculture exports.

Sale of sovereign bonds and raising of funds through syndicated loans mitigated the effects of reduced external liquidity. Official reserves increased, by June 2017, to a level equivalent to four months of merchandise imports. The external current account deficit and low FDI reserves however, continue to challenge to raise foreign exchange.

In November 2017, the Government replaced the previous Foreign Exchange Control Act with a new Foreign Exchange Act aimed at further liberalising and better managing foreign exchange. This move could result in the country attracting more foreign investment.

Future outlook for Sri Lanka's economy

- The economy is projected to grow by 5% in 2018.
- The Government is committed to medium-term reform agendas to improve competitiveness, governance and public financial management.
- Annual FDI inflows are expected to be significant over the next few years with the commencement of the Hambantota Industrial Zone and the continuation of the Colombo Port City project.
- The Central Bank will continue to focus more on non-debt creating methods of financing, in building the country's reserves.

The banking industry

The banking sector being the barometer of the economy plays a vital role through financial intermediation. The safety and soundness of the banking system hinges on adequate capital and good governance practices, including robust risk management systems. It provides a safe foundation for individuals and businesses to invest or deposit their money and to use the money in its possession for loans.

Sri Lanka's financial services sector accounts for 5.7% of GDP. The sector is serviced mainly by 13 local and 12 international Licensed Commercial Banks and 7 licensed specialised banks.

The banking sector continues to grow with profits and deposits while Basel III brings in greater controls to improve safety of funds

Profit before tax of the banking industry grew by 20.18% compared to last year. Profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE) marginally improved during the year. Banking sector liquidity remained at healthy levels throughout the year. Despite a marginal improvement estimated in gross NPL ratio, impairment provisioning for the year is estimated to have increased to LKR 19.8 Bn. from LKR 10.5 Bn. in 2016 due to increase in NPLs.

Total assets is estimated to have grown by 13.8% and reached LKR 10,293 Tn. Loans and advances which is the largest asset of the banking sector also is estimated to have grown by 16.1%.

Total deposits also increased significantly by 17.5% during the period under review. Gross non-performing loans ratio marginally improved to 2.5% from 2.6% last year. However, the banking industry is embracing stricter credit control measures to curb the non-performing advances.

Future outlook for the banking industry

All the banks have to comply with the directions on capital requirements under Basel III.

The minimum required total capital ratios to be maintained by the Bank are as follows:

	With effect from 1 July 2017 %	With effect from 1 January 2018 %	With effect from 1 January 2019 %
Banks with assets less than LKR 500 Bn.	11.25	11.875	12.50
Banks with assets of LKR 500 Bn. and above	11.75	12.875	14.00

Banks are required to comply with "SLFRS 9 – Financial Instruments" which strengthens the financial reporting.

Banks are also required to improve capital planning considering the stress testing and other variables.

With the economy's growth slowing down and regulatory requirements increasing, the period ahead will likely prove challenging for smaller banks and Non-Banking Financial Institutions (NBFIs). As a result, a form of a consolidation which will strengthen the sector and enable it to enhance the growth is imperative.

Launching the "Road Map 2018", the Governor of the Central Bank of Sri Lanka (CBSL) highlighted the following key action plans for 2018.

- **Flexible Inflation Targeting (FIT) Framework**

The Flexible Inflation Targeting (FIT) Framework is to be fully adopted by 2020 to conduct monetary policy in a proactive and forward-looking manner. FIT aims to preserve price stability of the economy by targeting an inflation range of 4-6%. The FIT framework should improve the country's capacity to deliver price stability and lead the country towards a more favourable environment for growth and employment generation. Three important pillars have been identified as the building blocks for adopting a FIT framework namely:

- strong Central Bank mandate and credibility;
- effective monetary policy conduct; and
- strong fiscal policy support and commitment.

- **Anti-money laundering efforts**

The Financial Intelligence Unit (FIU) of the Central Bank is taking several measures to implement "Anti-Money Laundering and Countering the Financing of Terrorism" regulations.

- **Implementation of Basel III**

The implementation of Basel III capital standards is to be completed by 1 January 2019. A capital conservation buffer and a surcharge on "Domestic Systemically Important Banks" have been imposed to ensure that banks actively build capital buffers.

- **Risk management**

Directions have already been issued to the banks on financial derivative transactions, to streamline risk management processes. Additional directions have been issued on foreign currency borrowing limits based on the total assets of a bank.

- **Taxation**

The new Inland Revenue Act is introduced to enhance direct tax compliance in Sri Lanka. Most of the exemptions, concessions and allowability of expenses have been restricted in the Inland Revenue Act. The impact on banks consequent to changes to Income Tax, VAT on

Financial Services, ESC, Crop Insurance Levy and Dividends and Remittance Tax could be significant. In addition, the introduction of a 0.02% debt repayment levy will have a significant bearing on the profitability within the banking industry.

Basel III, anti-money laundering efforts and the new Inland Revenue Act bring more challenges to the banking industry

As the Government encourages the increase of exports and the divestment of industry beyond the Western Province, there will be opportunities for banks to augment their portfolios with funds for investment. The funding of growth in the domestic economy however may prove to be a challenge, as the supply of funds may be limited and the banks may be forced to access funds which prove to be more expensive.

Financial Value Creation

Group Profits exceed LKR 5 Bn. while the total asset base grows by 15%, deposits and advances increase by 12% and 19% respectively

Highlights

Profit after tax



Group profit after tax in 2017 reached a milestone of LKR 5 Bn. year on year growth of 24% whilst Bank reported a profit after tax of LKR 4.4 Bn. with steady 10% year on year growth.

Total assets base

LKR 408 Bn.

Total asset base reached LKR 408 Bn. – year on year growth of 15%.

Mobilised deposits

LKR 34 Bn.

Successfully mobilised deposits of LKR 34 Bn. – year on year growth of 12%.

Capital adequacy

13.25%

Achieved the total capital adequacy ratio of 13.25%.

Liquidity ratio

23.57%

Maintained an optimum liquidity ratio of 23.57% (DBU) and 37.08% (FCBU) as at 31 December 2017.

Net assets value per share

LKR 96.50

Net assets value per share increased to LKR 96.50 from LKR 80.51.

Net advances growth

LKR 45 Bn.

Net advances grew by LKR 45 Bn. – year on year growth of 19%.

Profit per employee



LKR 1.38 Mn.

Profit per employee increased to LKR 1.38 Mn. in 2017 from LKR 1.27 Mn. in 2016.

Shareholders' funds



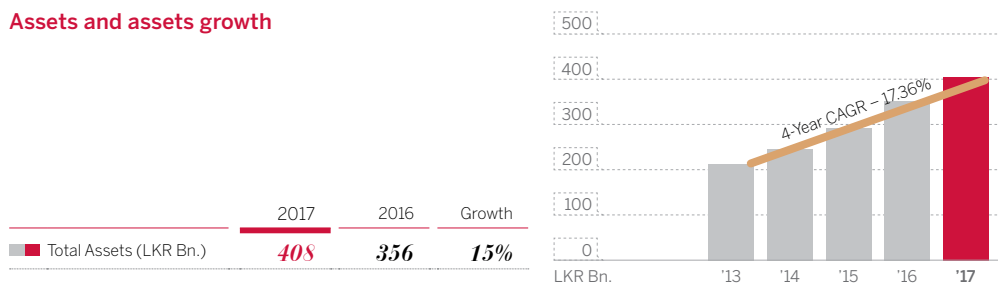
Shareholders' funds grew to LKR 34 Bn. from LKR 28 Bn. with 23% growth.

Statement of Financial Position

Assets and assets growth

- Total assets increased by LKR 52 Bn. (14.64%) to LKR 408 Bn., driven mainly by the growth in loans and advances of LKR 45 Bn.
- Despite the prevailing competitive business environment, Bank's credit growth reached 19% mainly driven by SMEs and corporates.
- The Bank will continue to focus on increasing its market share in all segments – corporate, SME and retail – by increasing business volumes channelled through its branch network and other lending units.
- Foreign currency financing grew by LKR 9.6 Bn. at a rate of 51%, the major component of which was United States Dollars (USD) 48%.

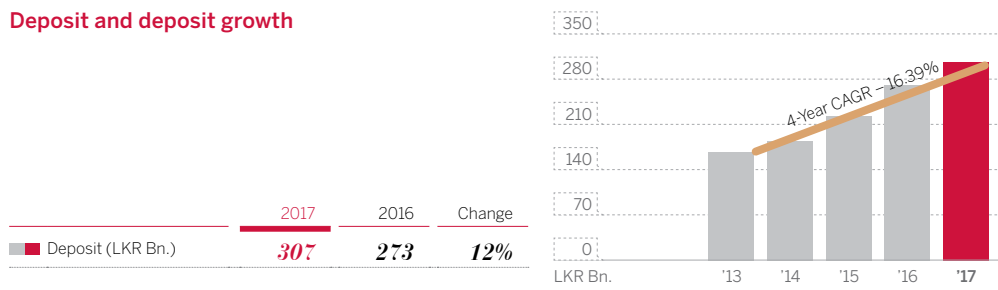
Assets and assets growth



Deposits

- The Bank's campaigns to attract deposits proved to be extremely beneficial as the deposit base grew by 12% from LKR 273 Bn. in 2016 to LKR 307 Bn. in 2017.
- The Bank offered a variety of deposit products that carried incentives and value added features which targeted a wide spectrum of customer segments from infants to senior citizens. Seylan seylfie, income saver and money market are a few of the new products which were introduced in the recent past to serve customers more into their needs.
- The Bank continued its focus on the CASA and grew its base by LKR 6.88 Bn. reflecting a growth of 7.7% over the year. Bank's CASA ratio stood at 31.2% by end 2017 despite competitive market rates.

Deposit and deposit growth



Impaired loans and provision for impairment

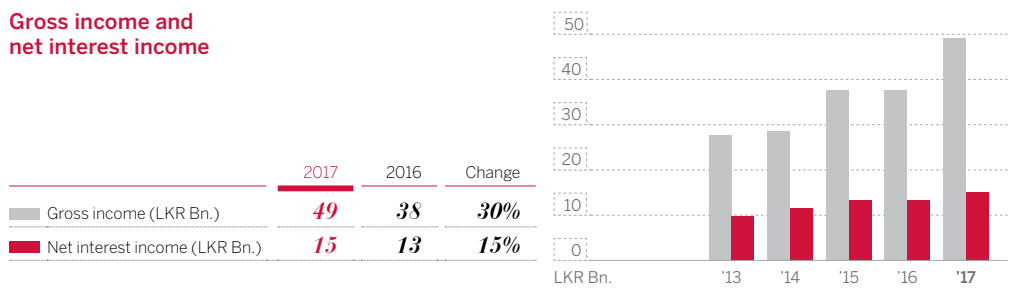
Bank's total impairment provision stood at LKR 5.607 Bn. as at 31 December 2017. Individual impairment provision and the collective impairment provision at the end of the year are LKR 1.744 Bn. and LKR 3.863 Bn. respectively. Bank made an impairment provision of LKR 1.495 Bn. during the year against the LKR 0.974 Bn. in 2016 for loans and advances.

Income Statement/Statement of Profit or Loss and other Comprehensive Income

Gross Income and Net Interest Income (NII)

- Gross income increased by 30% to LKR 49.338 Bn. in 2017 compared to LKR 37.873 Bn. in the previous year.
- Net interest income of LKR 15.491 Bn. in 2017 was 15% higher than the amount recorded in the previous year (LKR 13.467 Bn.).
- The cost of funds, reflected in interest expense, as a percentage of interest income recorded an increase from 59.75% to 64.57%. This was representative of the competitive market interest rates on deposits and other borrowings.
- NII represents 74% of bank's overall income. Bank's Net Interest Margin (NIM) recorded at 4.24% against the 4.27% in 2016 despite the pressure on interest margin with the increase in its overdue interest income.

Gross income and net interest income



Net fee and commission income, net trading income, net gain on financial investments and other operating income

- Net fee and commission income which forms a primary source of core banking income grew by 22.07% over the previous year.
- The growth is mainly due to increased volumes of fees generated from core banking activities including trade financing and credit card operations etc.
- The Bank continues to harness cross selling opportunities across the product spectrum in a bid to increase its fee income in the future.
- Net gain on financial investments grew by 2,915% to LKR 0.358 Bn. mainly due to capital gains on the Government Securities portfolio.
- Net trading income recorded a loss of LKR 0.212 Bn. against the previous year of LKR 0.228 Bn.
- Other operating income grew by 7.49% from LKR 1.408 Bn. to LKR 1.514 Bn.

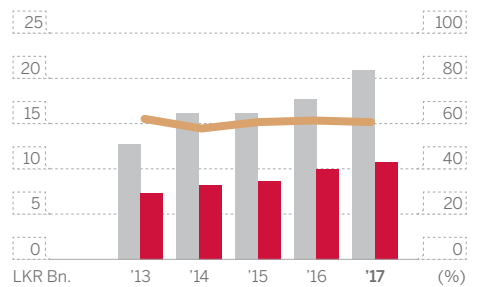
Total operating income and operating expenses

- Despite the challenging market conditions, the Bank recorded total operating income in 2017 of LKR 20.939 Bn. as compared to LKR 17.762 Bn. the previous year. A commendable growth of 17.88%.
- Bank operating expenses increased from LKR 9.725 Bn. to LKR 10.882 Bn. at 11.9% growth over the last year.
- Personnel expenses increased by 12.71% over the last year and stood at LKR 5.196 Bn. with the increase in staff benefits and additions to the sales force and other areas during the year.
- Other overheads and operating expenses increase up to LKR 5.687 Bn. from LKR 5.115 Bn. by 11.17%. The Bank continued to invest in human capital, technology and infrastructure such as upgrading, refurbishment of its business centres and head office.
- The above progressive activities of the Bank caused an increase in operating expenses to LKR 10.882 Bn. in 2017.

Total operating income, operating expenses and cost to income ratio

	2017	2016	Change
Operating income (LKR Bn.) (LHS)	21	18	18%
Operating expenses (LKR Bn.) (LHS)	11	10	12%
Cost to income ratio (%) (RHS)	61	62	-1

(Including VAT)



Taxation

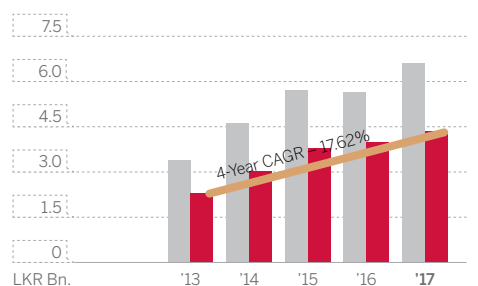
- VAT and NBT on Financial Services expenses increased by 40.45% to LKR 1.895 Bn. from LKR 1.349 Bn. in 2016.
- Bank's income tax expenses increased to LKR 2.226 Bn. from LKR 1.723 Bn. from 2016.
- Bank's effective tax rate increased from 30% to 33% mainly due to increase in disallowable expenses including increased VAT and NBT on financial services.
- Bank recorded a deferred tax liability of LKR 1.359 Bn. mainly due to effect on temporary differences on fair value gain on available-for-sale financial instruments and revaluation surplus on land etc. that were recorded in Other Comprehensive Income statement of the Bank.

Profitability

- The operating environment has a number of challenges for those organisations operating in the financial industry.
- Seylan Bank successfully met those challenges and recorded a net profit after tax of LKR 4.4 Bn. during the year under review.
- The Group achieved a milestone when it recorded a net profit after tax of LKR 5.0 Bn. for the first time.
- Overall the Bank has shown resilience in the face of the many challenges that had arisen during the year and recorded a sound result that lends favourably to the continuing soundness of its operations and augurs well for the future.

Profit before and after tax

	2017	2016	Change
Profit before tax (LKR Bn.)	6.6	5.7	16%
Profit after tax (LKR Bn.)	4.4	4.0	10%



Capital

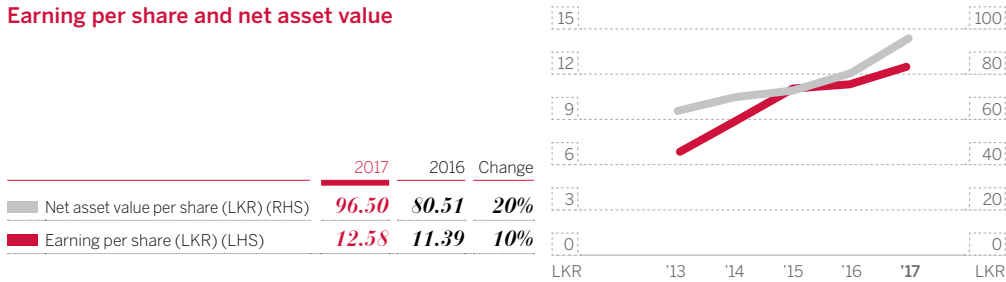
The Bank continued to be well capitalised in 2017, with a total Tier 1 capital ratio and a total capital ratio of 11.16% and 13.25% respectively, which were well above the statutorily required levels of 7.25% and 11.25% respectively.

- A Common Equity Tier 1 (CET) ratio of 11.16% which is in excess of the mandatory Basel III CET 1 ratio of 5.75%, which is being phased in, augurs well for the capital strength of the Bank and future expansion.
- Internally-generated capital, in the form of retained earnings, increased by 22.3% in 2017.
- The "available for sale" portfolio experienced a significant increase in its value, consequent to a fair value gain.

Shareholders' funds

- Shareholders' funds increased by LKR 6.4 Bn. (23.17%) in 2017.
- The net assets value per share of the Bank improved from LKR 80.51 in 2016 to LKR 96.50 in 2017 while the net assets value per share of the Group increased from LKR 84.13 in 2016 to LKR 101.08 in 2017.
- Bank's ROE and ROA stood at 14.30% and 1.16% respectively.
- Bank proposed a final dividend of LKR 3.50 per share in 2017.

Earning per share and net asset value



Our financial soundness indicators (FSIs)

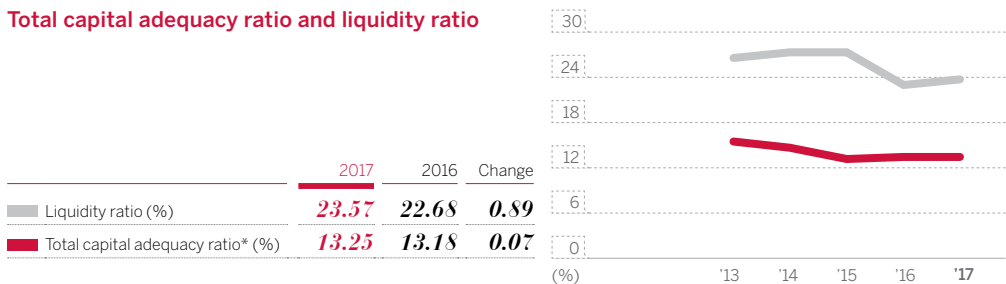
Financial Soundness Indicators (FSIs) are used to assess the financial strength of a banking institution. These indicators are benchmarked against international best regulatory practice advocated by the Basel Committee. In order of importance, they are:

- Capital strength/adequacy.
- Asset quality which denoted the productivity of the Bank's earning assets.
- Liquidity – indicating the Bank's ability to meet its daily obligations.
- Profitability and earnings.

Capital adequacy

- Banks are highly leveraged institutions which function using predominantly borrowed funds. The Bank's common equity Tier 1 capital ratio, Total Tier 1 capital ratio and total capital ratios for 2017 based on Basel III requirements were well above the statutorily required levels of 5.75%, 7.25% and 11.25% respectively.
- Bank maintains a sound CAR despite the increasing trend in risk weighted assets commensurate with the growth in credit.
- Further, the Bank's proposed debenture issue as detailed in the Note 49 would strengthen the Tier 2 capital and the total capital.

Total capital adequacy ratio and liquidity ratio



* 2016 – Basel II 2017 – Basel III

Statutory reserve fund

- The statutory reserve fund, which is a prudential regulatory capital reserve, is established by a mandatory transfer of 5% of profit after tax each year to cover potential losses in the business.
- The reserve fund stood at LKR 1.609 Bn. as at the end of 2017 and reported a 16% increase over the year.

Capital growth

- Since the Bank was first recapitalised in 2009, its Capital has grown by an annual average of 37.96%.
- This has helped the Bank to not only comply with the mandatory capital ratios, but to be well above the regulatory minimum levels.
- In addition, the levels of capital held by the Bank has given it operational flexibility to grow its asset book productively.
- The capital funds of the Bank stood at LKR 34.2 Bn. at the end of December 2017 and reported a growth over 23%.

Assessment of economic capital

- All banks are encouraged to continually assess internally, their economic capital needs, relative to their perceived risk exposure and against their projected expansion.

Liquidity

- With liquidity in the Domestic Banking Unit at 23.57% and in the Foreign Currency Banking Unit at 37.08%, the Bank maintained its liquidity levels above the statutory minimum of 20% for both units.
- The liquidity ratios, as enumerated in the risk management report, are closely monitored by the Assets and Liabilities Committee (ALCO) to ensure the efficient management of the Bank's liquidity position.

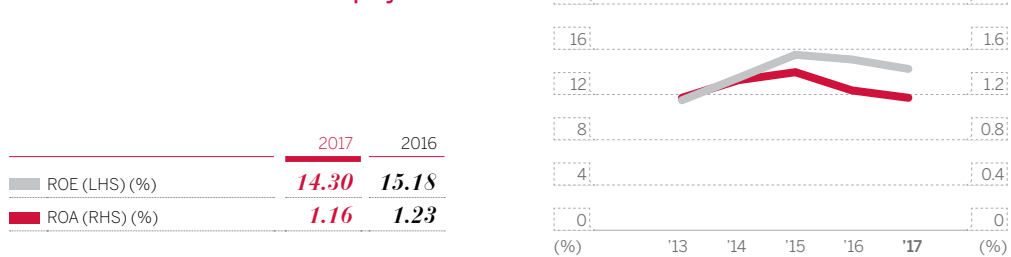
Liquidity coverage ratio

- CBSL introduced a Liquidity Coverage Ratio (LCR) in terms of the Basel III Liquidity Standards, to ensure the short term resilience of the liquidity profile of banks by requiring them to hold unencumbered high quality liquid assets to survive a significant stress scenario lasting 30 calendar days.
- The requirement was phased in with effect from 1 April 2015 at a minimum of 60% and to be fully implemented by 1 January 2019 onwards at 100%.
- LCR for the Bank stood at 160.30% on Rupee and 121.94% on all currencies as at 31 December 2017, comfortably above the minimum requirement of 80%.
- Beyond complying with the LCR requirement, the Bank monitors contractual maturity mismatches, funding concentrations, unencumbered liquid assets etc. on an ongoing basis.

Sustainable profitability

- The Bank recorded a profit after tax of LKR 4.430 Bn. while the Group profit after tax was LKR 5.004 Bn. reflecting growths of 10% and 24% respectively.
- The Bank and the Group also recorded profit before tax of LKR 6.656 Bn. and LKR 7.285 Bn. with growth of 16% and 26% respectively.
- The Return on Assets (ROA) stood at 1.16%, while the Return on Equity (ROE) was 14.30%.

Return on assets and return on equity



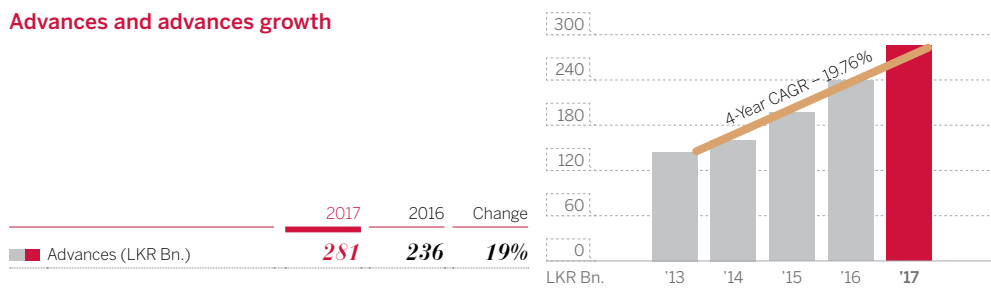
Cost to income/efficiency ratio

- Bank's cost to income ratio decreased from 62.35% to 61.02% mainly due to increase in Bank's total operating income by 17.88% over the last year despite the increase in cost on certain key business initiatives.
- Moreover, this reduction was reported despite the increase in VAT and NBT on financial services with the increase in tax rates.
- Cost to income ratio excluding VAT too reduced from 54.75% to 51.97%.

Key Performance Indicators (KPIs)

	2017 LKR Mn.	2016 LKR Mn.	Growth %
Deposits	307,099	273,456	12.30
Net loans and advances	280,862	236,020	19.00
Net interest income	15,491	13,467	15.03
Net fee, commission and other income	5,448	4,296	26.82
Profit after income tax	4,430	4,010	10.47

Advances and advances growth



Growth trend in assets

- Bank continued to prudently manage market risks – interest rate risk and exchange rate risk in particular – inherent in its assets and liabilities while ensuring the availability of sufficient liquidity and funding to sustain the growth of the Bank.
- Assets and Liabilities Committee that was primarily responsible for managing the financial position of the Bank strictly monitored the maturity mismatches in assets and liabilities and made necessary recommendations to improve balance sheet structure, duration etc. with appropriate funding sources and credit marketing strategies.
- Seylan 2020 focuses on growing its CASA base, SME and Retail customers by building a dynamic and efficient customer relationship along with the robust support functions by leveraging on information technology.

Assets – positive growth momentum

- The positive growth trend in total assets of 14.64% mainly derived from loans and advances. This is elaborated further in assets and assets growth section on page 135 of this report.

Deposits – positive trend continued

- Deposits stood at LKR 307 Bn. as at 31 December 2017 compared to LKR 273 Bn. at the end of 2016.
- The growth in low cost deposits was LKR 6.8 Bn. and stood at LKR 95.8 Bn. as at 31 December 2017.
- Low cost deposits accounted for 20.45% of net deposits growth for 2017 and accounted for 31.20% of total deposits.

Loans and advances – positive growth momentum

- Seylan Bank recorded a growth of 19% to LKR 281 Bn. as at 31 December 2017.
- Credit growth was mainly driven by SME, trade finance and corporate.
- We will continue to focus on both on increasing our market share in the SME and Corporate sectors through the branch network and lending units.

Future outlook

Shareholder value

- Return on Assets (ROA) and Return on Equity (ROE) are considered sound performance measures which indicate the extent to which the wealth of the Bank has been enhanced and hence, the return to the shareholders.
- ROA indicates the efficiency in the allocation of assets to maximise productivity and returns, while the ROE shows how efficiently shareholder capital has been deployed in the business to gain optimal returns to the shareholders.
- The prudent allocation of capital, competitive pricing, operational efficiency and service quality are essential ingredients in operating the Bank sustainably.

The Bank's actual and estimated ROA and ROE are shown in the table below:

Year	2017 actual	2016 actual	2018 estimate	2020 estimate
ROE (%)	14.30	15.18	>14.80	>17.00
ROA (%)	1.16	1.23	> 1.40	> 1.50
EPS (LKR)	12.58	11.39	>13.00	>15.00

Growth of the business volumes

- Growth is an essential component for the successful operation of a business.
- The Bank's actual and estimated growth parameters in respect of deposits, advances and total assets are shown below:

Year	2017 actual	2016 actual	2018 estimate	2020 estimate
Total deposits (LKR Bn.)	307	273	>350	>550
Total gross advances (LKR Bn.)	286	242	>330	>475
Total assets (LKR Bn.)	408	356	>450	>700

Growth in CASA and SME

- Improving the Bank's CASA Ratio from its current level is a key strategic priority for the Bank. It is a challenge, not only for the Bank but also for the banking industry.
- In an increasing interest rate environment, customers' preference is skewed towards time deposits which attract higher interest rates.
- Bank has taken a few key initiatives to drive the CASA growth such as appointing SME and retail relationship officers, strengthening product proposition etc.
- The Bank also has introduced "CASA war room" for performance monitoring and review the CASA campaigns and the growth.
- The Strategic Plan 2017-2020 is also geared towards diversifying the Bank's business with greater participation in the SME sector and the expansion of fee based income.
- One key strategy is to introduce SME hubs for end to end credit processing and risk management to SME customers.
- Currently the Bank has opened 3 SME hubs and will open another 11 by Q-2 2018.
- Further planning to strengthen the product offering such as cash management and supply chain finance solution and introduce a comprehensive digital strategy for SME and corporate customers.

Improvement of processes

- As part of its commitment to enhancing operational efficiency, service quality and optimising returns to shareholders, the Bank is working on several strategic initiatives.

Project	Responsibility
Centralisation of processes	DGM Branches/DGM Operations
Cost optimisation	Chief Financial Officer/respective heads
Service quality improvements	Head of branches/operations
Digitisation	DGM IT/DGM Branches
Staff optimisation	DGM HR/DGM Branches
Setup SME hubs, CASA war rooms	DGM Retail Banking, DGM Operations
Business Processing Re-engineering (BPR)	DGM Operations

Performance of business units

Branch banking

Branch banking has been the major source of the Bank's business and it covers a majority of our operations, where we serve all segments of the community.

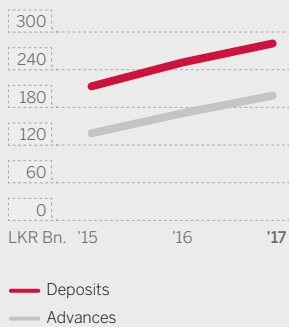
Focus

Shifting towards sales oriented, multi-channel banking solutions while offering industry best customer service experience to our customers.

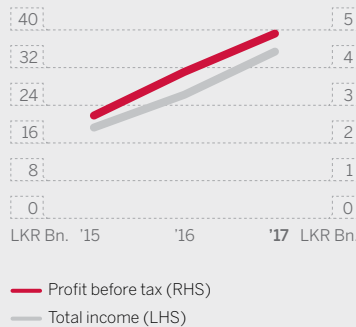


Performance achieved

Deposits and advances



Profit before tax and total income



	Year on year growth	Achievement against budget
Deposits	▲ 13%	■ 91%
Loans and advances	▲ 18%	■ 90%
Profit before tax	▲ 28%	■ 109%
Total income	▲ 38%	■ 100%

Strategy

Achievement

Increase the branch network with lean and smaller branches

- Blueprint for lean branch format is finalised
- Introduced multiple service counter concept
- Changed branch layout in new, refurbished and relocated branches
- Reduced processing and queuing time
- e-lounge with 24x7 accessible
- 166 banking centres and 98 students' savings centres

Transform into a digital bank

- 205 ATMs and 9 CDMs
- Relunched Internet banking portal and introduced mobile banking app
- Enhanced usage of alternative banking channels through awareness and guidance

Build dynamic and efficient sales force

- Recruited outbound sales team
- Introduced relationship officer concept with doorstep banking
- Initiated technology driven lead management system

Key strengths

- Island-wide Branch network;
- Extensive product range to attract customers from new born to senior citizens and individual to corporates
- Superior customer service with friendly staff ("Service from the Heart")

Key challenges

- Extremely competitive market environment
- Volatility in Interest rates
- Cost effective business innovations
- Market driven demand

Future outlook

- Continue in expanding our branch network in selected locations and modernising branch network focusing on lean, automated and sales oriented branch network
- The Bank will continue to add new features and widespread of payment options, giving customers a new experience in Internet banking and other digital platforms
- Increase investment in technology based self-service channels

Corporate and off-shore banking

The Corporate Banking Division comprises the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU).

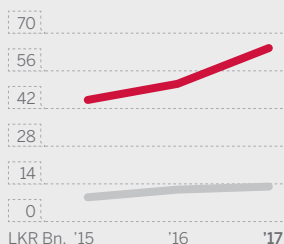
Focus

Increase the corporate banking portfolio while strengthening and expanding relationship with corporate customers by offering tailor-made products with customised service.

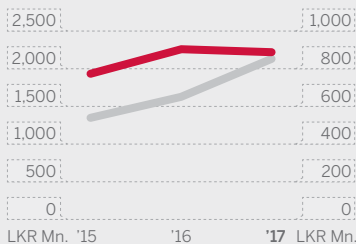


Performance achieved

Deposits and advances



Profit before tax and total income



— Deposits
— Advances
— Profit before tax (RHS)
— Total income (LHS)

	Year on year growth	Achievement against budget
Loans and advances	▲ 28%	103%
Deposits	▲ 16%	91%
Total income	▲ 33%	112%

Strategy

Achievement

Portfolio management

- Developed comprehensive portfolio by offering value added services
- Granted project based long-term lending through syndications
- Created trade and treasury specialist functions
- Maintained credit quality while acquiring new customers in growing sectors in the economy

Develop comprehensive digital channel

- Implemented account planning process
- Introduced account profitability tool
- Developed digital tools for enabling corporate sales

Key strengths

- Offer customised banking solution experience
- Consist of skilful and experienced relationship team to undertake large and complex financing assignments

Key challenges

- Pressure remains on net interest margins
- Increasing level of competition

Future outlook

- Build a commercial credit portfolio in line with the growth sectors of the country such as exports/trading/manufacturing/logistics/leisure/construction
- Participate in syndications capitalising on already established relationships with peers and investment advisors
- Grow the trade book with emphasis to capture large exporters with the engagement of trade and treasury specialists
- Aggressively follow-up on cross sell opportunities in dealer financing, leasing, payroll, bancassurance, and personal loans

Retail banking

The Bank's retail banking business represents credit cards, pawning, leasing, housing loans, margin trading, personal loans and factoring, we serve those products through our branch network.

Focus

With the support of digitalisation, aggressive sales culture is introduced to maintain growth momentum across all retail banking products and services to support Bank's bottom line.

Key strengths

- Superior and friendly customer service
- Widespread product portfolio
- Island-wide branch network with modern electronic banking space
- Intensifying focus on selling and marketing.

Key challenges

- Increasing trend in interest rates
- Regulatory changes
- Extremely competitive market environment
- Inherent limitations in proper credit evaluation

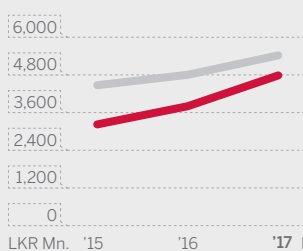
Credit cards

Focus

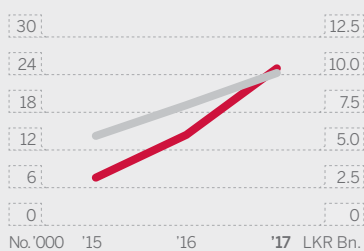
Enhance the card base and spend, through value additions while acquiring more merchants.

Performance achieved

Advances and total income



Card usage and new card acquisition



	Year on year growth	Achievement against budget
Advances	▲ 28%	109%
Total income	▲ 14%	96%

— Total income (RHS)
— Advances (LHS)

— Card usage (RHS)
— New card acquisition (LHS)

Strategy

Enhance business volumes and offer value additions

Sales culture

Achievement

- Recorded Bank's highest ever card spend (over LKR 10 Bn.)
- Introduced "Cracker Deals" concept to the market
- Conducted massive campaign under "Travel the Island" theme
- New credit card underwriting model was in place to improve the quality

- Deployed committed direct sales team
- Carried out sales promotional activities at selected locations
- Setup a merchant acquiring team

Future outlook

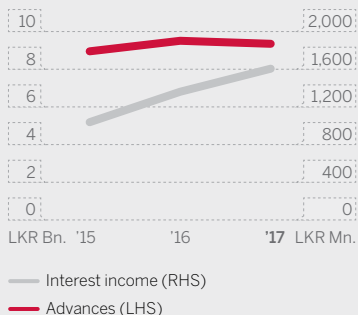
- Further, automation of the credit card approval process
- Offer bundle products to cross-sell POS/MPOS and suitable card payment options
- Debit card product to be revamped to increase visibility to enhance awareness and engagement
- Customer life cycle management strategies will be brought in via customer retention

Pawning

Focus

Improve the operational efficiencies and mitigate the risks to grow quality portfolio.

Advances and interest income



Performance achieved

	Year on year increase/decrease	Achievement against budget
Advances	5% ▲	81%
Interest income	20% ▲	105%

Strategy	Achievement
Increase pawning base	<ul style="list-style-type: none"> Offered competitive advance rates and interest rates Granted over 200,000 pawning advances in 2017 Conducted outdoor marketing campaigns Conducted periodic gift-based pawning campaigns
Enhance service excellence	<ul style="list-style-type: none"> Conducted on the job training as and when required Closely monitored market conditions and informed branches with regulatory changes

Future outlook

- Increase focus on promotional activities
- Deploy a permanent pawning officer to high volume branches in the North and the East

Leasing

Focus

Penetrate into diversified markets and geographical areas to capture market share.

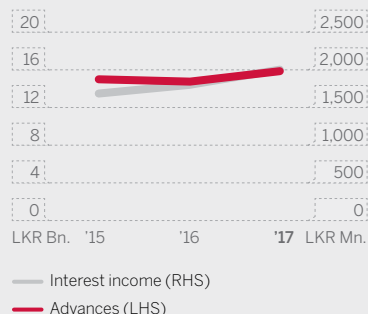
Performance achieved

	Year on year increase/decrease	Achievement against budget
Advances	10% ▲	97%
Interest income	13% ▲	85%

Strategy	Achievement
Enhance business volumes	<ul style="list-style-type: none"> Built outbound sales team and established regional leasing officers Penetrated into used vehicle market Conducted branch level promotional campaigns called "Seylan Riyapola"
Process improvements	<ul style="list-style-type: none"> Introduced credit score card for personal lease approvals Utilised call centre resources to remind watch list customers Implemented new leasing system



Advances and interest income



Future outlook

- Focus on commercial vehicles to leverage demand growth due to LTV regulations
- Geographical diversification to be introduced
- Strengthen the business partnership with vehicle dealers to achieve maximum growth levels
- Increase the leasing outbound sales team
- Strengthen recoveries process to reduce NPAs

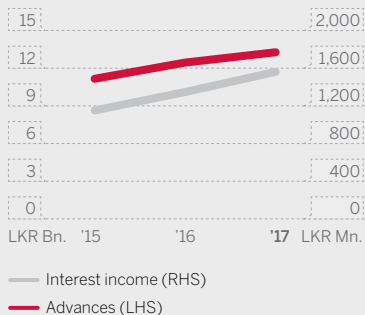
Housing

Focus

Growth through market opportunities and cross selling.

Performance achieved

Advances and interest income



Strategy	Achievement
Enhance business volumes	<ul style="list-style-type: none"> Initiated outbound sales force Pursue tie-ups with property developers, real estate agents, condominium property developers and leading contractors
Brand visibility	<ul style="list-style-type: none"> Participated as title sponsor for leading construction and housing exhibitions Aggressive sales and marketing strategies through digital channels

	Year on year increase/decrease	Achievement against budget
Advances	▲ 8%	86%
Interest income	▲ 17%	85%

Future outlook

- Develop the operational process by introducing online platforms to process housing loans to improve productivity and efficiency
- Strategic tie ups with real estate developers
- Geographical diversification to be introduced
- Strengthen the sales staff with area hub concept

Margin trading

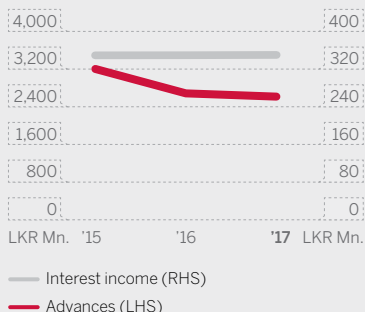
Focus

Attract new and promote existing customers through continuous engagement.

Strategy	Achievement
Retain the portfolio	<ul style="list-style-type: none"> Offered competitive advance rates Increased existing limits and encouraged to utilise unutilised limits
Focus on product development	<ul style="list-style-type: none"> Visited broker firms and canvassed new clients

Performance achieved

Advances and interest income



	Year on year increase/decrease	Achievement against budget
Interest income	▲ 2%	65%

Future outlook

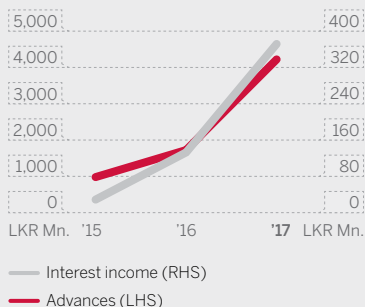
- Continue the dialogue with all customers
- Strengthen relationship with brokers and existing customer contacts

Personal loans

Focus

Aggressively promote through sales force and branch staff to grow quality portfolio.

Advances and interest income



Performance achieved

	Year on year increase/decrease	Achievement against budget
Advances	156% ▲	105%
Interest income	186% ▲	86%

Strategy	Achievement
Grow business volumes	<ul style="list-style-type: none"> Dedicated sales staff assigned at reputed companies Personal loans product was developed with a new value proposition – “2-day loan” Conducted aggressive marketing campaign through digital media Tie ups with listed companies
Process improvements	<ul style="list-style-type: none"> Product and portfolio management process introduced to monitor and enhance performance Process enhancements were made to reduce turnaround time. i.e. Centralised loan processing and disbursement of loans Expand the personal loan department

Future outlook

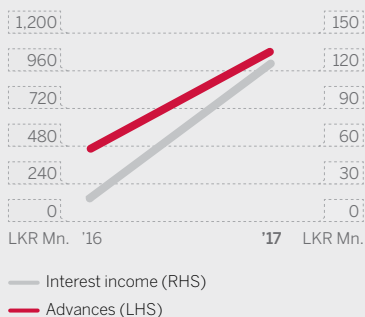
- Expand personal loan processing units to increase effectiveness
- Conduct aggressive sales strategy through all channels
- Establish strategic connections with reputed companies
- Increase sales force
- Online instant loan approval system to be initiated

Factoring

Focus

Target SME and other customers of the branch network to grow factoring base.

Advances and interest income



Performance achieved

	Year on year increase/decrease	Achievement against budget
Advances	147% ▲	48%
Interest income	641% ▲	60%

Strategy	Achievement
Focus on product growth	<ul style="list-style-type: none"> Used cross-selling technique to canvass Bank's existing customers Offered competitive fee structure Conducted product awareness training Rolled out factoring software to branches

Future outlook

- Introduce Client access module
- Canvass existing Bank clients
- Conduct internal and external awareness campaigns

Treasury

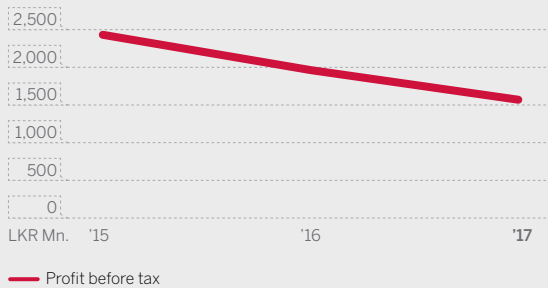
Treasury is responsible for funding and market risk management through borrowings, issue of debt securities, use of derivatives and investing and liquid assets.

Focus

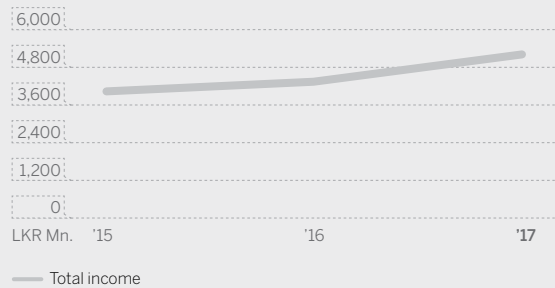
Prudently manage market risk and achieve our bottom line.

Performance achieved

Profit before tax



Total income



	Year on year growth	Achievement against budget
Profit before tax	-21% ▼	60%

	Year on year growth	Achievement against budget
Total income	23% ▲	94%

Strategy

Achievement

Optimal utilisation of funds and other resources

- USD 75 Mn. in long-term foreign funding from reputed Development Finance Institutes (DFIs)
- Diversified the Treasury investment portfolio

Improve processes and operating systems

- Migrated to fully integrated treasury management system
- Expanded the Treasury Front Office staff cadre to efficiently manage all portfolios
- Strengthened the treasury risk management framework

Operate the division in a sustainable manner

- Treasury sales unit focused on acquisition and retention of new and existing customers
- Provided on the job training and external training
- Carried out periodic staff rotation policy to enhance competency

Key strengths

- Ability to offer a sophisticated range of treasury products
- Experienced and dedicated staff to manage the critical functions
- Availability of fully integrated treasury management system

Key challenges

- Volatility in foreign exchange and interest rates
- Investors may focus on short-term investments

Future outlook

- Treasury sales unit to be expanded to work closely with all strategic business units and branches to canvass new business leads
- Implement Phase 2 of the integrated Treasury Management System, comprising precious metals, equity, corporate debt and market risk modules

International and trade finance

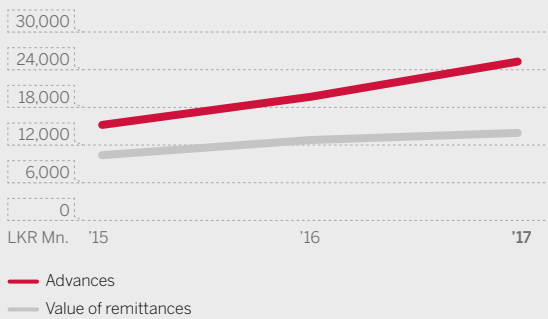
International and trade finance undertakes all operational process of import and export related transactions and remittances services of the Bank whilst supporting branches to promote the business.

Focus

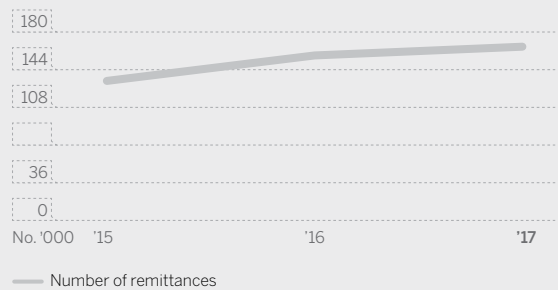
Act as the main facilitator of the Bank in all aspects related to import/export operational processes and maintain strong relationship with global correspondent banks.

Performance achieved

Advances and value of remittances



Number of remittances



Strategy	Achievement
Focus on business development	<ul style="list-style-type: none"> Appointed trade specialists to support relationship management team Visits made to existing and potential trade clients to strengthen the relationship Initiated relationships with new correspondent banks, with funded/unfunded lines Introduced a special package of tariff for "Entrepot" clients Expand the agency relationship in the Kingdom of Saudi Arabia, Australia and Europe to increase remittances Remittance promotions were conducted via digital media
Knowledge sharing and communication	<ul style="list-style-type: none"> Conducted "On-the-job training" Published "Trade Handbook" enabling branch staff to enhance their knowledge Monthly E-flyer to all branches

Key strengths

- Successfully maintaining global network of over 300 correspondent banking/ financial relationships
- Knowledge sharing with customers
- Dedicated and experienced team with island-wide branch network

Key challenges

- Competition due to non-existence of regulatory tariff for trade related charges
- Newly introduced regulatory changes
- Uncertainties in global economic and political environment

Future outlook

- Introduce door step banking to selected corporate clients on trade transactions. This product is named "Easy Trade"
- Trade sales force to be launched
- Canvass trade clients from a variety of fields, enabling the Bank to have a diversified portfolio of clients
- Strengthen the existing correspondent banking relationships with a selected number of globally reputed banks
- Operate a priority counter at the trade department to cater exclusively to corporate and prime clients of branches, with a loyalty point scheme based on the volumes routed through the Bank
- Work towards migrating a new trade system and implement the SWIFT customer security programme
- Increase agent and sub agent tie-ups to increase remittances
- Placement of staff in selected countries to increase NRFC deposits and remittances

Project finance

Actively participate and promote infrastructure development related lending.

Focus

To enhance opportunities in financing infrastructure development and other economic activities.

Performance achieved

Strategy	Achievement
Focus on product development	<ul style="list-style-type: none"> • Networking with project finance and corporate banking divisions of other banks • Closely worked with corporate banking and branch banking to identify and cater to project finance requirements of their customers

Key strengths

- New offering to the customers
- Ability to offer comprehensive financial packages
- Current national demand for project finance

Key challenge

- Restricted to a limited number of sectors and unable for sector diversification

Future outlook

- Be the banker of first choice for syndications with peer banks
- Explore FCBU project lending and projects approved by BOI. Develop links with industry associations and attend their events
- Conduct product awareness training for branch managers and other related staff

Performance of support functions

Recoveries

Main role is to monitor and control overall asset quality, support branches and departments on all recovery related matters.

Focus

To assist branches in minimising non-performing advances, monitor new additions and initiate recovery actions.

Strategy	Achievement
Strengthen the recovery and monitoring process	<ul style="list-style-type: none"> • Streamlined the downgrading process in order to expedite recovery action • A system introduced to Identify facilities which are overdue and ensure that such files are forwarded for recovery action without delay • Special emphasis given to review the progress of all overdue NPA facilities

Key strengths

- Offering best solutions
- Dedicated staff

Key challenges

- Increasing NPA
- Restrictions and limitations in the legal system for debt recovery

Future outlook

- Strengthen the outsourced recovery force
- Create Lessons Learnt environment in order to make awareness among credit staff
- Ensure high level of credit quality by strengthening the monitoring process

Marketing

Plays a key role in enhancing the Bank's corporate image and promoting Bank's products and services.

Focus

Enhance overall Bank's corporate image, strengthen corporate position, increase the market share through traditional and non-traditional media and promote the products and services offered by the Bank.

Performance achieved

Strategy	Achievement
Enhance sales effort	<ul style="list-style-type: none"> • Set up outbound sales force • Launched CASA war room and payroll proposition • Used cross-selling techniques and call centre to increase sales efforts • Introduced technology driven lead management system • Appointed dedicated staff to enhance and monitor service quality
Continually engage with promotional support	<ul style="list-style-type: none"> • Carried out town/office storming, regional marketing activities • Provided corporate and other sponsorships to gain constant brand visibility
Strengthen digital and social media marketing	<ul style="list-style-type: none"> • Actively engaged with digital and social media spaces to enhance visibility

Key strengths

- Extensive and innovative product portfolio
- Well positioned corporate brand and visibility

Key challenge

- Intensely competitive market environment

Future outlook

- Leverage on corporate brand: 30th Anniversary activity line up, corporate campaign and 360° approaches across channels
- Implement brand track/brand equity study, corporate sponsorships, constant brand visibility
- Further enhancement of cross-sell ratio by using: Inbound/out bound call centre activities
- Amplify sales efforts by increasing productivity, build additional capacity, segmented approach, penetrate untapped markets with direct sales team
- Enhance below the line presence: Increase promo unit productivity with Relationship Officers and strengthen outdoor branding
- Service quality enhancement whilst focusing on each customer touchpoint
- Carry out research and development initiatives such as mystery shopper/mystery caller, SME studies, focus groups on pre and post product launches

Information technology

Information Technology plays a key role in providing technological solutions to the entire Bank.

Focus

To provide continuous support, ensure smooth integration of all business operations and improve overall operating efficiency of the Bank while offering the best customer experience.

Strategy	Achievement
Enhance IT-based solutions	<ul style="list-style-type: none"> Investment on IT infrastructure Upgraded electronic card management system Acquired EMV certification for LankaPay transactions Introduced IT software development implementation process Plan to develop a service oriented IT architecture Implemented data Warehouse tool
Digital banking improvements	<ul style="list-style-type: none"> Initiated digital signature and biometric capturing Implemented Internet banking corporate channel
Infrastructure stabilisation	<ul style="list-style-type: none"> Upgraded IT infrastructure of the Bank Purchased a new test and development machine to facilitate testing Data leakage protection Implemented single sign on

Future outlook

- Strengthen IT Infrastructure and security control aspects
- Business intelligence tool (BI) to be installed
- Further improvements to the Digital Banking tools
- Upgrade core banking and other systems for greater efficiency
- Provide greater customer experience and convenience

Branch credit

Branch credit is set-up to address and support the practical aspects of granting credit to customers.

Focus

To facilitate credit approval process, guide branches on regulatory requirements, inculcate best credit practices and simplify credit process.

Strategy	Achievement
Extend reach and enhance business opportunities	<ul style="list-style-type: none"> Establishment of a dedicated Corporate Credit Branches unit and SME unit to provide specialised service and better management of credit portfolios SME hubs were opened at selected areas Conducted 10 SME capacity building training programmes for knowledge sharing
Improve service standards	<ul style="list-style-type: none"> SME hubs were initiated to expedite the turnaround time of credit proposal Deployed relationship officers to promote and acquire new SME businesses
Enhance IT-based solutions	<ul style="list-style-type: none"> Rolled out the Loan Origination system in the entire Branch network Upgraded "Indus" module to facilitate the recovery follow ups and establish timeliness for litigation process

Key strengths

- A strong culture of SME lending since the Bank's inception.
- Participate in many refinance schemes

Key challenges

- A highly competitive environment
- Lack of formal accounting practices and managerial skills within these enterprises

Future outlook

- Further strengthen the SME and Corporate Credit Branch units' functions to enhance business opportunities
- Set-up SME hubs at all regions and enhance number of relationship officers
- Envisage system solutions to automate credit related functions
- Decentralise the risk evaluation at Area level by introducing designated "Area Risk Officer" concept

Credit administration unit

Credit administration unit is set-up to address all credit administration processes of the Bank.

Focus

To carry out all credit administration processes of the Bank and ensure that a clear distinction between credit marketing and origination functions is maintained, while assuring quality credit documentation processes are in place.

Strategy	Achievement
Centralisation of processes	<ul style="list-style-type: none"> • Took over factoring operational and documentation process • Expanded the credit monitoring procedures • Centralised recovery of charges related to advances
Inculcate credit discipline	<ul style="list-style-type: none"> • Conducted credit administration-related training for branches and departments • Supported branches and strategic business units in preparing collateral and credit documentation

Future outlook

- Further strengthening of credit centralisation process and monitoring of all internal and external procedures
- Improve services rendered to branches and SBUs through Business Process Improvement

Performance of the Group

Seylan Developments PLC

Seylan Developments PLC (SDP) is a public limited liability company incorporated in Sri Lanka on 3 September 1992, quoted on the Colombo Stock Exchange on the same day and re-registered under the Companies Act No. 07 of 2007, on 22 May 2008. Seylan Bank PLC is the parent company of Seylan Developments PLC holding 70.51% as at 31 December 2017.

Seylan Developments PLC manages and maintains "Seylan Towers" which comprises twin towers, where the East Tower houses the Head Office of Seylan Bank PLC and the West Tower is comprised of 16 luxury apartments.

The Company's Board of Directors is as follows:

- Mr Kapila Ariyaratne – Chairman/Non-Executive Director
- Mr S Paliawadana – Deputy Chairman/Non-Executive Director
- Mr P Saravanapavan – Independent Non-Executive Director
- Mr R J Jayasekara – Non-Executive Director
- Mr P Hennayake – Non-Executive Director
- Mr L T Kiringoda – Independent Non-Executive Director

Seylan Developments PLC reported profit before tax (excluding fair value gains on investment properties) of LKR 260 Mn. during 2017 (for more details of the subsidiary, please refer Note 27).

Sustainability Assurance Report



KPMG
(Chartered Accountants)
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Independent Assurance Report to Seylan Bank PLC

We have been engaged by the Directors of Seylan Bank PLC (“the Company”) to provide reasonable assurance and limited assurance in respect of the sustainability indicators as identified below for the year ended 31 December 2017. The sustainability indicators are included in the Seylan Bank PLC’s Integrated Annual Report for the year ended 31 December 2017 (the “Report”).

The reasonable assurance sustainability indicators covered by our reasonable assurance engagement are:

Assured sustainability indicators	Integrated annual report page
Financial Highlights	8

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited assurance sustainability indicators	Integrated annual report page
Sustainability performance indicators	199-200
Information provided on following stakeholder groups:	
Investors	156-161
Customers	162-171
Employees	172-183
Suppliers	184-189
Community	190-195
Environment	196-198

Our conclusions:

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

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

Reasonable assurance sustainability indicators

In our opinion, the reasonable assurance sustainability indicators, as defined above, for the year ended 31 December 2017 are, in all material respects, prepared and presented in accordance with the Global Reporting Initiative (GRI) G4 Content Index Guidelines.

Limited assurance sustainability indicators

Based on limited assurance procedures performed and evidence obtained, as described below, nothing has come to our attention that causes us to believe that the limited assurance sustainability indicators, as defined above, for the year ended 31 December 2017, have not in all material respects, been prepared and presented in accordance with the GRI G4 Content Index Guidelines.

Management’s responsibility

Management is responsible for the preparation and presentation of the reasonable assurance sustainability indicators and the limited assurance sustainability indicators in accordance with the GRI G4 Content Index Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the reasonable assurance sustainability indicators and the limited assurance sustainability indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

Our responsibility

Our responsibility is to express a reasonable assurance conclusion on the Company’s preparation and presentation of the reasonable assurance sustainability indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by The Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the reasonable assurance sustainability indicators are free from material misstatement and limited assurance about whether the Limited

Assurance Sustainability Indicators are free from material misstatement.

Reasonable assurance over reasonable assurance sustainability indicators

The procedures selected in our reasonable assurance engagement depend on our judgement, including the assessment of the risks of material misstatement of the reasonable assurance sustainability indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the reasonable assurance sustainability indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the GRI G4 Content Index Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

Limited assurance on the assured sustainability indicators

Our limited assurance engagement on the limited assurance sustainability indicators consisted of making enquiries, primarily of persons responsible for the preparation of the limited assurance sustainability indicators, and applying analytical

and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the limited assurance sustainability indicators;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the limited assurance sustainability indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the report;
- reading the limited assurance sustainability indicators presented in the report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;
- reading the remainder of the report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower

than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the limited assurance sustainability indicators.

Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's reasonable and limited assurance sustainability indicators are prepared and presented in accordance with the GRI G4 Content Index Guidelines and for no other purpose or in any other context.

Restriction of use of our report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.



Chartered Accountants
Colombo

16 February 2018

Informed Investors

We are committed to deliver maximum economic value to our investors in a sustainable manner

Highlights

Return on assets (ROA)

1.16%



Return on equity (ROE)

14.30%

Net asset value per share increased to



Earnings per share increased to



Share price voting

LKR 87.20



Share price Non-voting

LKR 56.00





Economic policy

Seylan Bank is committed to delivering economic value to all its stakeholders. As such, our core activities are structured and managed to create economic prosperity through value addition.

The Bank’s key strategic priorities in 2017 were as follows:

- Consistent creation of wealth and sustainable growth.
- Ensuring a sustainable return.
- Transparent and responsible banking.

Maximising the value delivered to the Bank’s shareholders is a key goal of the Bank. While the Bank extends itself in creating added value, it is conscious of the need to maintain the quality of its products and services that will provide assurance on the safety of their investment and ensure the sustainability of the Organisation.

Shareholder profile

Distribution of shareholding

	2017	2016	2015	2014	2013
Stated capital – (LKR Mn.)	11,228	10,530	10,530	10,530	10,530
No. of shares – voting and non-voting	354,456,106	344,960,410	344,960,410	344,960,410	344,960,410
No. of shareholders voting and non-voting	15,735	16,111	16,477	16,866	18,755
No. of shares – resident shareholders	340,499,537	324,985,086	323,148,443	321,488,665	334,180,259
No. of resident shareholders	15,510	15,870	16,232	16,629	18,501
No. of shares – non-resident shareholders	13,956,569	19,975,324	21,811,967	23,471,745	10,780,151
No. of non-resident shareholders	225	241	245	237	254
No. of shares – individuals	77,064,049	71,624,112	64,244,024	62,033,868	74,293,653
No. of individual shareholders	15,140	15,469	15,810	16,242	18,139
No. of shares – corporate shareholders	277,392,057	273,336,298	280,716,386	282,926,542	270,666,757
No. of corporate shareholders	595	642	667	624	616
No. of shares held by the twenty largest shareholders					
Voting	155,779,066	148,792,777	144,722,578	147,626,034	156,641,775
Non-voting	119,723,521	113,858,658	112,335,603	117,968,588	112,267,580

The majority of the Bank's shareholders are individuals and residents of Sri Lanka. Detailed information relating to their shareholdings is given in the Investor Information section of this Report.

Value creation for shareholders

Evidence of the Bank's commitment to ensuring sustainable returns to shareholders is in the results achieved by the Bank.

	2017	2016	2015	2014	2013
Turnover (LKR Mn.)	49,338	37,873	28,586	28,564	28,091
Profit before income tax (LKR Mn.)	6,656	5,734	5,777	4,649	3,454
Profit after income tax (LKR Mn.)	4,430	4,010	3,831	3,078	2,316
Total assets (LKR Mn.)	408,126	356,013	296,331	249,311	215,161
Net assets per share (LKR)	96.50	80.51	72.63	69.60	63.08
Earnings per share (LKR)	12.58	11.63	11.11	8.92	6.74
Dividend per share as at 31 December (LKR)	3.50	3.25	2.75	2.50	2.25

Financial value added

The Financial Value Added Statement, shown below, illustrates the distribution of value addition to various stakeholders. The Bank distributed 35.97% of its net income to its employees. 28.53% of its profit after tax was distributed to the investors, while 26.90% of its profit after tax was retained for future expansion.

Financial value added statement

	2017		2016	
	LKR Mn.	%	LKR Mn.	%
Value added				
Income earned by providing banking services	49,338		37,873	
Cost of services	(33,390)		(24,629)	
Value added by banking services	15,948		13,244	
Net impairment losses	(1,505)		(954)	
	14,443		12,290	
Value allocation to employees				
Salaries, wages and other benefits	5,196		4,610	
	5,196	35.97	4,610	37.51
To government				
Income tax	2,226		1,723	
VAT and NBT on financial services	1,895		1,350	
	4,121	28.53	3,073	25.00
To shareholders				
Dividends	1,241		1,121	
	1,241	8.60	1,121	9.12
To expansion and growth				
Retained earnings	3,189		2,889	
Depreciation and amortisation	696		597	
	3,885	26.90	3,486	28.37
	14,443	100.00	12,290	100.00

Economic value addition

Economic value addition is a measure of true value created to shareholders by the Bank, as against the measure of accounting profit. As shown in the table below, the Bank created LKR 1,125 Mn. as added value to the shareholders through its operations during 2017.

Economic value addition statement

	2017	2016
	LKR Mn.	LKR Mn.
Shareholders' funds	34,206	27,772
Add: impairment provision for loans and advances	5,607	6,053
Total invested equity	39,813	33,825
Earnings		
Profits attributable to shareholders	4,430	4,010
Add: provision for credit losses/impairment on advances	1,496	974
	5,926	4,984
Economic cost % (12 months average Treasury Bill Rate plus 2% risk premium)	12.06	11.95
Cost of shareholders' funds	4,801	4,042
Economic Value Addition (EVA)	1,125	942

Share price fluctuation

Quarter 2017	Share price (LKR)					
	Highest		Lowest		Closing	
	Voting	Non-voting	Voting	Non-voting	Voting	Non-voting
1st quarter	99.09	60.00	83.60	51.50	87.00	54.70
2nd quarter	96.00	61.90	88.00	52.60	93.50	60.80
3rd quarter	96.80	61.00	89.00	55.60	90.10	57.80
4th quarter	97.00	63.50	86.00	55.00	87.20	56.00

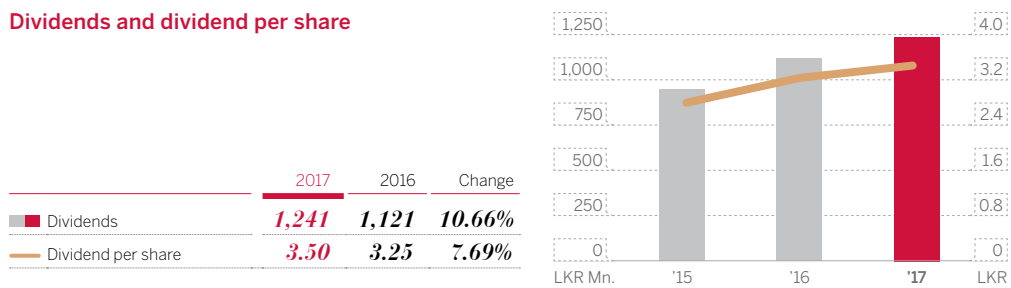
Composition of share ownership

The analysis of the distribution of ownership as at 31 December 2017 is given in the investor information section of this report.

Dividends

The objective of the Bank's dividend policy is to create maximum value for the shareholders and consequently improve market capitalisation while taking into account prudent profit retention to build the Bank's organic capital.

Dividends and dividend per share



Financial reporting and compliance

The Bank strives to keep its stakeholders and the general public informed of its financial soundness primarily through the Annual Report and Interim Reports.

The Bank has committed to provide transparent information to our investors helping them to make informed decision

The Financial Statements and related Notes contained in this Report have been audited by the External Auditor, Messrs KPMG. Other qualitative information and compliance with Global Reporting Initiatives (GRI) guidelines, are assured by an Independent Auditor. The Report is also submitted to the Sri Lankan Accounting and Auditing Standards Monitoring Board for their review of compliance with applicable Accounting Standards.

The Bank is committed to publish its Annual Report and Interim Reports in a timely manner and submit the required information to the Colombo Stock Exchange (CSE) on or before the stipulated dates. The Interim Financial Statements for 2017 were published well in advance to assist the investment decisions of investors and other stakeholders.

Defined benefits and defined contributions

The Bank operates a retirement gratuity (defined benefits plan) for employees mandated under the Payment of Gratuity Act No. 12 of 1983.

The actuarial valuation on the retirement benefit obligation as of year end has been arrived at by using the Projected Unit Credit Method in accordance with LKAS 19 – “Employee Benefits”.

The Bank makes contributions to the following two types of Defined Contribution plans for its employees:

- Employees' Provident Fund
- Employees' Trust Fund

Further details on the contribution/defined benefit plans are given in the accounting policies and the Notes to the Financial Statements.

Awards and recognition



The Bank was recognised with a number of awards during the year. The following table lists the awards by relevant categories:

Award category	Product/promotion	Awarded by	Award type
30 Best Performing Corporates	Seylan Bank PLC	Business Today Magazine	20th Position
Annual Report – Banking Sector	Seylan Bank Annual Report 2016	CA Sri Lanka	Bronze
Bank of the Year Excellence in Customer Convenience – Category B	Seylan Bank PLC	Lanka Clear Techno Vision Awards 2017	Gold
Best Bank for Seamless Back end Operations	Seylan Bank PLC	Lanka Clear Techno Vision Awards 2017	Gold
Bank of the Year for Financial Inclusivity – Category B	Seylan Bank PLC	Lanka Clear Techno Vision Awards 2017	Gold
Overall Winner for Excellence in Interbank Transactions	Seylan Bank PLC	Lanka Clear Techno Vision Awards 2017	Silver
Bank's Operating Efficiencies and Excellent Commitment Towards Customer Needs	Seylan Bank PLC	Wells Fargo Operational Excellence Award	Excellence Award
Best Use of Social Channels	Seylan Bank PLC – Social and Digital Media	Golden Globe Awards 2017 – Worldwide Awards by CMO Asia Awards	Worldwide Winner
Best Digital Media Team of the Year	Seylan Bank PLC – Social Media	Golden Globe Awards 2017 – Worldwide Awards by CMO Asia Awards	Worldwide Winner
Best Digital Integrated Campaign – Banking and Finance Sector	Seylan Bank PLC	SLT Zero 01 Awards	Winner
Financial Data Banks Local	Seylan Bank Annual Report 2016	ARC Award 2017	Bronze winner
Written Text Banks Local	Seylan Bank Annual Report 2016	ARC Award 2017	Honors

Future outlook

- Enhancement of Return on Assets (ROA) and Return on Equity (ROE) is considered essential for the sustainable success of the Bank's operations.
- Growth of business volumes without sacrificing quality of products and services will be another aim of the Bank.
- Greater interaction with and participation in the progress of the Small and Medium Enterprise sector will give the Bank the opportunity to diversify and grow.

Satisfied Customers

Constantly exceeding customer expectations through convenient banking, service excellence and value additions

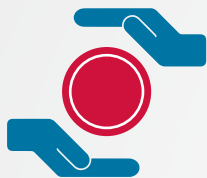
Highlights

SME unit and Hubs

Initiated sales staff concept and established dedicated SME unit at head office and area offices.



Launched
“Seylan Seylfie”
unique
youth product



“Seylan Sure”

a value addition scheme and includes assured benefits for the Bank’s loyal savings and current account customers.

100+
sales officers
across the country.



185
relationship
officers.

Over 27%

increase in corporate web hits in 2017.

Number of Banking centres

Number of ATMs

Over 53%

increase in Internet banking users in 2017.

166



205

Number of CDMs 9

Over 600 thousand

Socially engaged local bank with over 600,000 Facebook followers.



Over 25

Offering over 25 assets and liability products.

Overall customer satisfaction level stood at 77%.

Customer responsibilities

The key components of the Strategic Plan 2020 are centred around providing products and services to customers, while fostering convenience and efficiency. Changes to the business delivery model, appointment of Relationship Officers, enhancing the customer reach and digitalisation can be identified as main initiatives to achieve above objectives.

Customer service is not a new fad adopted by the Bank. Rather, it is an ingrained ingredient in the culture of its operational processes. Our strategic priorities are:

- **Enhance customer experience through lean branches and SME hubs**

The strategic focus in branch banking, is to shift the emphasis towards omni-channel banking solutions while offering unmatched customer service. The branches are equipped with all necessary facilities to enhance the experience of a customer in terms of quality service while minimising turnaround time.

- **Improve customer convenience through digitalisation**

In this day and age of everything electronic, the expectations of customers are geared towards speed and convenience in executing their banking functions. The improvements to the Bank’s digital platforms and heavy investments on IT infrastructure will lead to fulfil customer expectations. It is now possible for our customers to conduct most of their banking business with the Bank on their digital devices without having to physically visit a branch.

- **Build dynamic and efficient customer relationship force**

Seylan has emerged and been distinguished as leading customer service provider in last three decades. Going beyond that, we built dynamic and efficient customer relationship force to transform Bank’s service oriented culture to comprehensive sales plus services oriented powerhouse.

The Bank caters to all segments of society by adding value to their lives

Value creation and product innovation

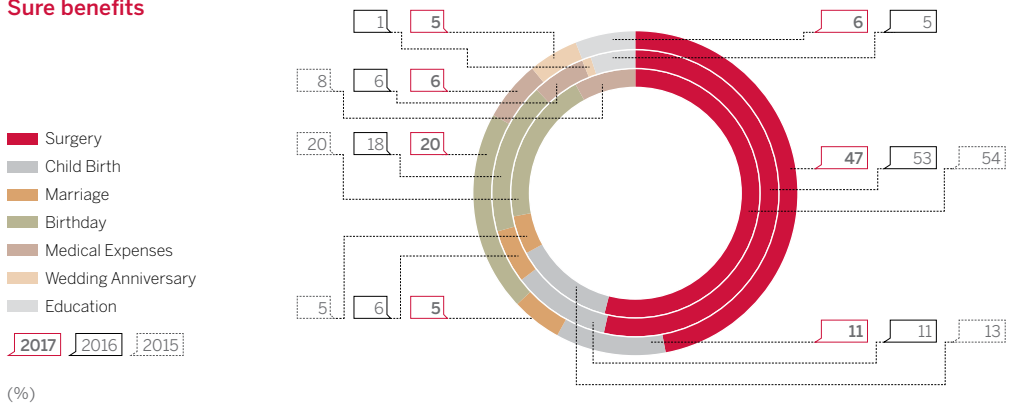
The Bank caters to all segments of society by adding value to their lives. We expect our customers to be educated and healthy, to be respected at every stage of life, to enjoy appreciation and recognition for their loyalty and support to the Bank. We promote these objectives through various schemes and projects.

Seylan Sure

“Seylan Sure” is one such product which operates as a value addition scheme and includes assured benefits for the Bank’s loyal savings and current account customers. The primary objective of this scheme is to extend support to its customers through tangible means, when they are in most need of moral and financial support.

The distribution of Seylan Sure benefits in 2017 was as follows:










Distribution of Seylan Sure benefits







Product portfolio

The range of products in its portfolio is designed to lead the Bank towards being "Sri Lanka's leading financial services provider".

Product	Description	Value delivered	Market served	
Deposit products				
Seylan Sure		Offers definite benefits for personal savings and current account holders	Interest and reward benefits	Individuals aged above 18 years
Tikiri		Big account for the little ones	Interest, reward gifts and bonus interest benefits	Children below 15 years of age
Seylan Harasara		Senior citizens account	Interest, reward benefits and priority service	Senior citizens aged above 55 years
Money Market Savings Account		Short-term savings account with higher interest rate	Interest benefits	Corporate, high net-worth individual clients and collection accounts of institutions
Millennium 30		30 day fixed deposit	Interest benefits	Corporate, SME, retail and individual clients
Flexi Deposit		Allows depositor to decide the period of deposit	Interest benefits	Corporate, SME, retail and individual clients
Seylan Shakthi		4-year fixed deposit	Interest and reward benefits	Corporate, SME, retail and individual clients
5star		5-year fixed deposit	Interest and reward benefits	Corporate, SME, retail and individual clients
Seylfie		Youth account which pays additional interest and digital interest	Rupee interest, digital interest and reward benefits	Youth aged between 18-26
Thilina Sayura		Foreign currency deposit account with rewards	Interest and reward benefits	Non-resident and Sri Lankan individuals who earn foreign exchange
Income Saver Account		Saving account designed to cater financial needs of regular monthly income earners	Interest and reward benefits	Individuals who earn a regular monthly income

Product		Description	Value delivered	Market served
Lending products				
Seylan Siri Nivasa		Unique housing loans scheme	Interest benefits	Individual clients
Seylan Pawning		Cash advance against gold	Interest benefits	Individual clients
Seylan Leasing		Finance leases for vehicles, motor cycles, machinery, plant and equipment	Interest benefits	Corporate, SME, retail and individual clients
Seylan Personal Loans		Personal loan for any related purpose	Interest benefits	Individual clients
Seylan SME		Specialised loan scheme for SME sector	Interest benefits	SME clients
Scholar Loans		Unique higher education loan scheme	Interest benefits	Individual clients
Seylan Credit and Debit Cards		Visa, Master credit and debit cards	Interest benefits, rewards, merchant discounts	Individual clients
Overdrafts		Overdraft facilities for personal and corporate current account holders	Interest benefits	Corporate, SME, retail and individual clients
Trade Finance		Imports and Exports	Commission and interest benefits	Corporate, SME, retail and individual clients
Seylan Factoring		Provides working capital requirements against trade receivables	Interest benefits	Corporate, SME, retail and Individuals
Seylan Gold Loans		Instant short term loan facility against Gold articles	Interest benefits	Corporate and individual clients
Other Facilities		Treasury Investments, Margin Trading facilities, Offshore Banking	Commission and interest benefits	Corporate, SME, retail and individual clients

Product	Description	Value delivered	Market served
Other offerings			
Seylan eBanking	 Able to carry out variety of banking functions at their convenience at the click of a button	Low charges 24x7 accessibility	Corporate, SME, retail and individual clients, minor and credit cardholders
SEY Cash	 Low charges and access fee	Commission benefits	Individual clients
SMS Banking	 Opportunity to carry out selected banking functions via SMS	Free of charge	Corporate, SME, retail and individual clients, minor and credit cardholders
Seylan Suhada Sewa	 Dedicated service for needy people in the society	Free of charge	Clergy, senior citizens, disabled people, pregnant ladies and mothers with infants

Customer and product responsibility

The principle of ethical and responsible advertising guides the Bank in communicating its products and services. The key focus in product responsibility is to aim for complete transparency and simplicity across the service delivery process and in its products offering.

Transparency of information on products and services will enable customers to make right finance decisions.

The Bank offers a wide range of products and financial services catering to the needs of all ages and sectors of the community. Since the Bank always strives to safeguard the interest of its customers, it adheres to a strict risk management regime through internal controls, documented policies and processes and embedded system securities. Seylan has pioneered several products and services that enhance convenience whilst ensuring maximum privacy and compliance with all applicable laws and regulations.

Product policy

To meet and exceed customer expectations, in a non-exploitative manner that embodies optimum levels of clarity and transparency.

Product innovation and service excellence

The Bank caters to the needs of its customers by offering a wide spectrum of financial services that meets customers' expectations and adds value to their requirements.

Since inception, the Bank has been committed to executing strategies that are primarily customer centric. Consequently, the Bank has garnered a reputation for being a leading provider of financial services with customer orientation that extends beyond being a mere provider.

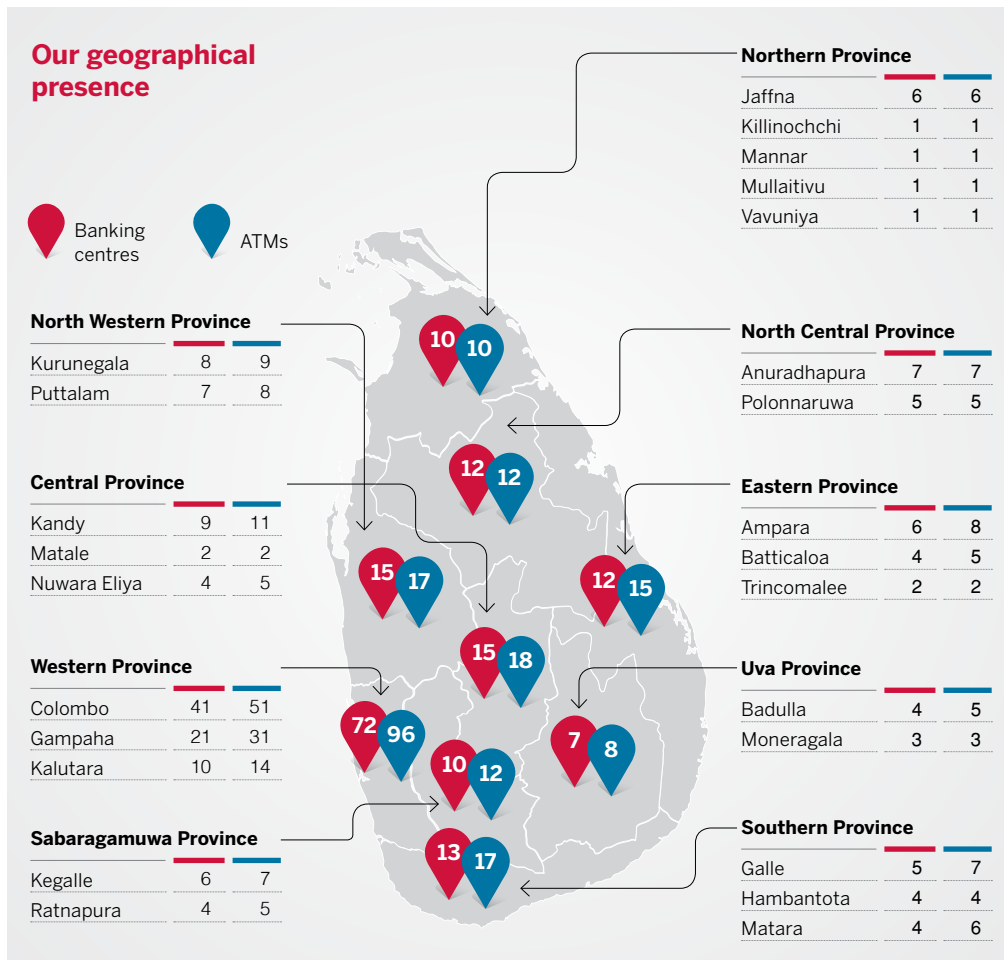
Enhance customer experience through lean branches and SME hubs

The Bank recognises the need and the right of all citizens to have equal access to its products and services. It is also aware, in order to maintain the country's social balance, that all segments of the community need to have access to capital.

In addition, the Bank invested substantially in enhancing its IT Platform to accommodate the needs of a wider range of customers, in particular, those who are savvy with electronic media.

Key initiatives adopted to enhance customer experience through lean branches and SME hubs

- Introduced multiple service counter concept.
- Provided a speedier service through automation and centralisation of functions.
- Established the dedicated SME unit at head office to develop, monitor and implement strategies to SME business across the network.
- Setup SME hubs at regional level and re-engineered the credit approval processes in order to improve turnaround time.
- Appointed dedicated staff to monitor and enhance the level of service quality and conducted training programmes targeting frontline staff on service quality excellence.



Improve customer convenience through digitalisation

The Bank has strengthened its range of existing eChannels and web-based solutions in response to the demands of its customers.

Internet banking

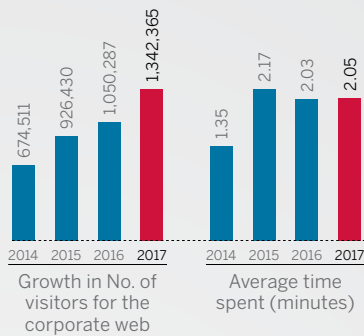
- Revamped the Corporate Internet Banking platform with value added functionalities and streamlined the payment options giving customers the straight through payment experience through Internet Banking.
- Introduced online placement of Fixed Deposits and e-Savings account opening by enhancing the online experience with convenience to customers.



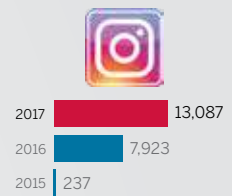
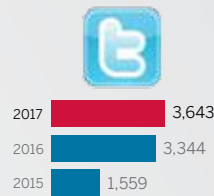
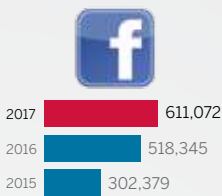
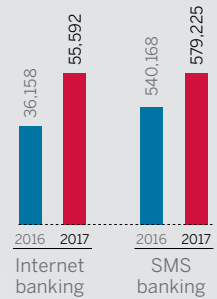
SMS banking

- Bank tied up the major local telecom providers on the SMPP technology to provide faster SMS experience to Bank customers.

Corporate web growth



No. of Internet and mobile banking customers



Engaging with social media

The Facebook page of Seylan Bank currently has over 600,000 fans, making Seylan Bank the most socially engaging bank in Sri Lanka.

The year 2017, witnessed a growth in innovative activations hosted both online and offline through the social and digital media channels.

Recognition received for Seylan's social media initiatives



Key initiatives adopted to improve customer convenience

- Enhanced the e-banking platforms by offering new services and strengthened security features i.e. auto creation of e-accounts
- Offered more choice and convenience to customers through a variety of electronic channels. i.e. Seylan payroll proposition
- Enhanced presence in social media platforms such as Facebook and Twitter to provide information on new products and services and obtain customer feedback
- Added ATMs, CDMs and cheque deposit machines with 24X7 accessible
- Introduced real time online payment update for telecommunication providers



Build dynamic and efficient customer relationship force

An innovative approach of the Bank is to move away from expecting the customer to come to the Bank, to take the Bank to the customer. 185 Relationship Officers have been trained to be out on the field, where the customers are, and make them aware of the products and services that the Bank offers. Their role is to inform the customers, of the benefits of their association with the Bank and the benefits that their businesses can experience. Since its inception in 2017, there have been encouraging results and the staff too has been enthused by the service they provide to their customers.

Key initiatives adopted to build dynamic and efficient customer relationship force

- Created teams dedicated for sales, at branches and strategic business units.
- Recruited outbound sales force for retail/SME customer acquisition.
 - Deployed more staff to sales and marketing by relieving them of back office functions via the centralisation and automation.
 - Initiated performance based incentive scheme for sales staff.
 - Introduced a technology driven lead management system to track work flows and improve the lead conversions.
 - Introduced e-learning solutions which helps to update knowledge on latest Bank's products and services.

Well-trained customer Relationship Officers drive the branch network to be dynamic service providers

Customer health and safety

Although the nature of the banking business does not engender a direct impact, the Bank takes due care in designing its products and services to minimise any adverse effect on the health and safety of its customers.

Our Bank branches are deployed with trained security personnel as well as equipped with alarm systems and CCTV cameras to ensure the safety of our customers and our people. The Bank's Security Department conducts various training programmes for security persons, apart from those they conduct periodic fire drills for our staff members. Emergency wardens are selected from each unit/branch and place in the units/branches of the Bank to supplement its work and provide them with a comprehensive training on how to respond to emergencies such as fire, robberies and natural disasters. During the year under review there has been no significant health and safety issues reported.

Product/service labelling and marketing communication

The Bank’s Product Development Committee screens all relevant aspects, including statutory regulations, of its multi-layered range of products and banking solutions and certifies its compliance with the Bank’s product policy.

The Bank circulates to its stakeholders, accurate, clear, timely and relevant information to:

- Ensure that product features and pricing such as, interest rates (nominal and annual effective rates), fees, commissions, charges, tariffs and terms and conditions are displayed and understood by its customers;
- Communicate in three languages (Sinhala, Tamil and English) via various channels, including brochures, digital and non-digital display boards and other electronic and printed media; while ascertaining that its marketing communication material does not contain any information that could mislead the public.

Customer privacy

The Bank recognises that it deals with funds and property of the public, and that the public expects trust and confidentiality in all their dealings with the Bank. Consequently, the Bank, in handling large volumes of sensitive information generated from a wide range of banking transactions, considers their primary task to be the protection of their customers’ privacy and maintenance of confidentiality at all levels.

The Bank’s Audit and Inspection Department conducts periodic reviews to ensure that all departments and business units adhere to stipulated guidelines issued by internal and external regulators. During the period covered by this report, there were no incidents reported of non-compliance with rules, regulations or ethics in product/service labeling, marketing communication or breaching of customer privacy. Therefore, the Bank has not been subject to any fines or litigation arising from statutory violations in product/service labelling, marketing communication or breaching of customer privacy.

Overall customer satisfaction levels record 77% for the second consecutive year

Customer complaints

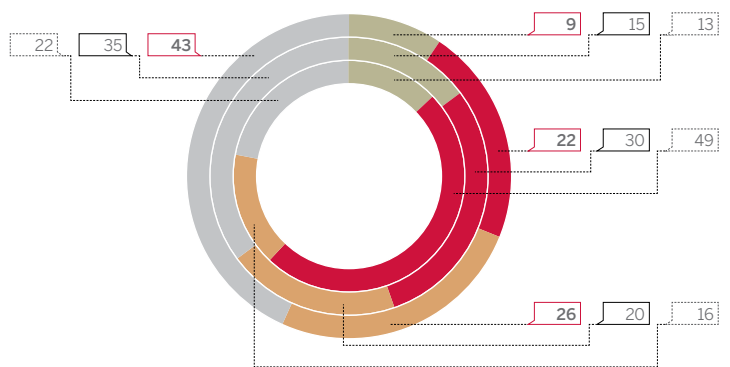
The Bank recognises that complaints need to be resolved fairly, effectively and without delay. Customers are encouraged to lodge their complaints directly with the Personal Assistant to the Director/Chief Executive Officer where they will be addressed confidentially and quickly.

Time analysis to resolve customer complaints

- Within a day
- Within a week
- Within two weeks
- Within a month

2017 2016 2015

(%)



Compliance

No incidents of non-compliance with regulations and voluntary codes concerning product and service labelling or marketing communication were reported during the year. Likewise, there were no incidents of breaches of customer privacy and losses of customer data during the reporting period. The Bank does not sell or market products or services which are banned or disputed in the market or subject to stakeholder or public debate. Therefore, the Bank was not subject to any fines or litigation arising from such statutory violations.

Customer satisfaction and mystery shopper survey

The Bank conducts “Customer Satisfaction and Mystery Shopper Surveys” annually, to gauge the level of satisfaction amongst its customers. The specific objectives of these surveys are to:

- Determine the present level of satisfaction with regard to customer service
- Understand the needs and expectations of customers;
- Identify opportunities that can be leveraged to gain a competitive advantage
- Measure the extent of customer loyalty
- Guide the Bank in determining the areas that need improvement.

The overall mystery shopper satisfaction level was at 77% in 2017.

In addition to the above surveys, the Bank uses the customer satisfaction indicator screens, set up at the branches, to get instant indications of the level of customer satisfaction.

Sale of banned or disputed products

The products and services provided by the Bank are highly regularised, duly registered and operate in strict compliance with Central Bank of Sri Lanka customer charter. Products or services which are banned or disputed in the market or subject to stakeholder or public debate are not sold by the Bank.

In addition, the Bank does not finance any project which is illegal, as clearly documented in our credit policy manual.

Financial services for disadvantaged people

The Bank undertakes several initiatives to improve access to its products and services by disadvantaged persons by:

- Publishing advertising material in three languages;
- Providing wheelchair access in branches;
- Conducting “*Tikiri Kids Banking*” day events through the branch network together with the active participation of parents, to enhance finance literacy among them.

Future outlook

Having regard to the principle of customer centricity that encompasses the Bank’s operations, the following initiatives will be undertaken in the years ahead to promote the Bank’s offerings to the public:

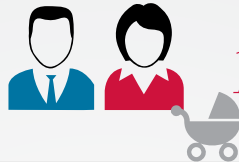
- Improve the value addition to the customers while making our products innovative, customer friendly, meeting the needs of the customers.
- Our efforts in growing savings will promote financial literacy among children, youth and women
- Expansion of our technology based channels for convenient banking.
- Install onsite and offsite ATMs and CDMs with special features.
- Expand the branch network.
- Further improve door step banking experience through relationship officers.
- Extend SME hub concept to island-wide network.
- Upgrade the e-banking platform to enhance features and functionalities.
- Further improve processes to reduce service time.
- Assist customers to adopt electronic channels for more convenience.
- Increase use of mobile and other digital channels for marketing communications.

Motivated Employees

The biggest strength that we will capitalise on our journey to become the Bank we will be is our motivated team with diverse skills. Each one of us has a part to play and they have as one team participated and contributed with wholehearted commitment towards realising our goals

Highlights

180 *Recruitments*
180 recruitments for the year.

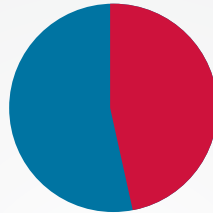


100%

Maternity leave
return to work from maternity leave.

Employee Gender wise

58%



42%

Zero
Child labour
Zero child labour-related issues

Over 70%
Staff satisfaction



24.57 Hrs

Over 13 years average service period

Average training hours per employee

3,199
Staff strength



Over 1.6 Mn.
Average benefit per employee

Social policy

We believe that the key to our success and competitive advantage is our unique commitment to continuous improvement and results. We are committed to encourage our team members to enhance their skills, map out their careers and grow both personally and professionally.

Employees form the backbone and strength of the Bank which views them as essential to its long-term success and sustainability. As a responsible employer, the Bank encourages diversity in the make-up of its employees, affords a work environment that promotes good health and safety and provides opportunities for personal development, in a bid to engender contented and motivated employees.

Employees form the backbone and strength of the Bank which views them as essential to its long-term success and sustainability

The diverse workforce comprises 3,199 employees as at 31 December 2017. Attracting, retaining and motivating employees are crucial objectives of the Bank's Human Resource activity.

Key strategies adopted during the year:

- Lean structure through business processing re-engineering
- Competency development of staff and creating a multi-tasking environment
- Transformation of general banking roles into new business channels
- Strengthening the sales and marketing proposition
- Creating high performance culture

Staff strength 2017



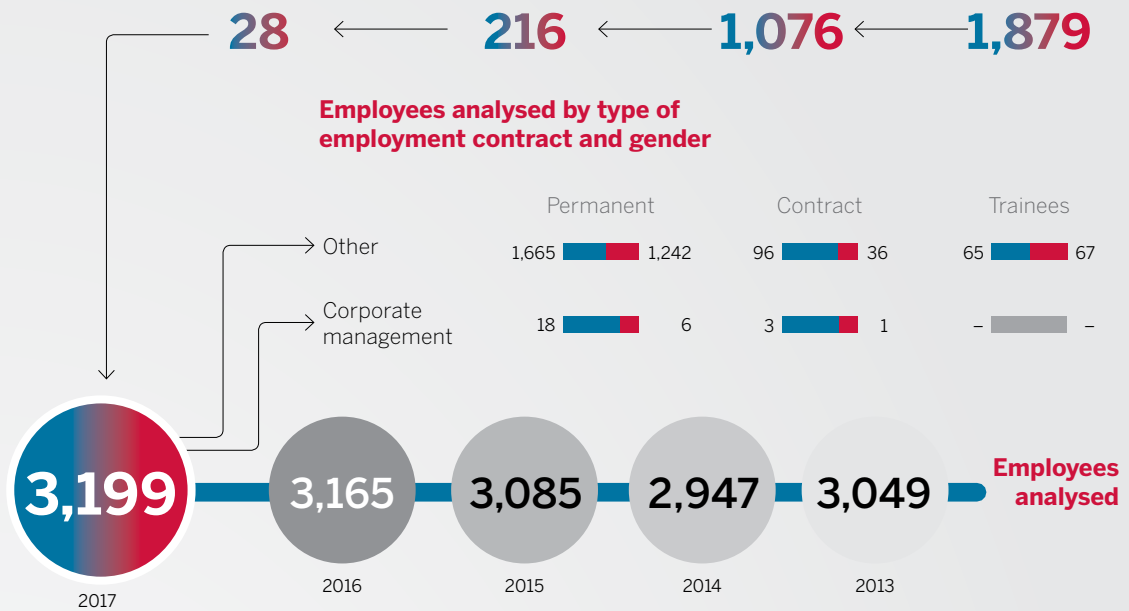
Employees analysed by type of employment contract

	2017	2016	2015	2014	2013
Full time	3,199	3,165	3,085	2,947	3,049
Part time	-	-	-	-	-
Total	3,199	3,165	3,085	2,947	3,049
Permanent	2,931	2,790	2,843	2,829	2,863
Contract	136	65	22	11	16
Trainees	132	310	220	107	170
Total	3,199	3,165	3,085	2,947	3,049



Employees analysed by grade and age

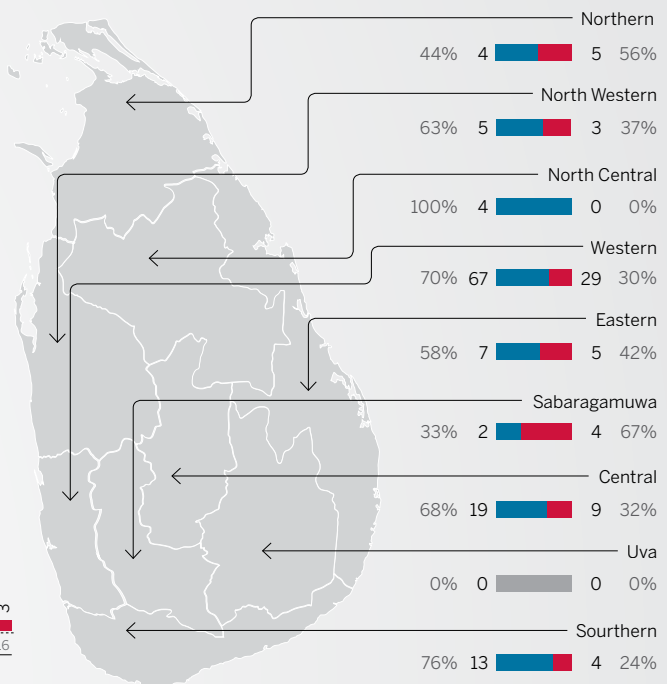
Age	Corporate management	Middle management	Operational management	Others
< 20	-	-	-	17
21 - 30	-	2	9	320
31 - 40	3	8	207	452
41 - 50	11	104	362	245
> 50	7	39	21	40



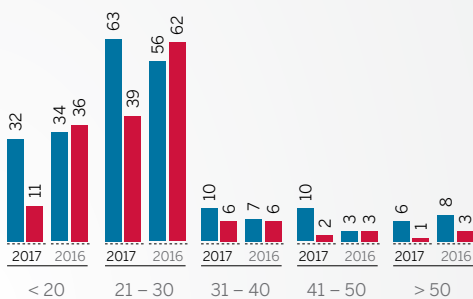
Recruitment

The Bank recruits talented and capable people from throughout the country. Based on the HR rules and regulations staff recruited is considered to be competent to execute the jobs they are recruited for. All Senior Management recruits are from local communities. The salary scales for entry level employees are the same and based on locations, with industry level wages applied to them. All new recruits are given an orientation programme which helps them understand the Bank's policies and its operations.

Recruitment province-wise



Recruitments age-wise





Employee turnover

The following chart depicts employee turnover by gender and age. Employees resign for a variety of reasons, such as, to further studies, better perks, for personal reasons, to migrate, retirement etc.

Employee turnover by age and gender

	2017			2016		
	Male	Female	Total	Male	Female	Total
20 or Below	8	4	12	1	5	6
21-30	26	27	53	21	30	51
31-40	15	18	33	15	9	24
41-50	10	11	21	11	7	18
Above 50	17	9	26	25	11	36
Total	76	69	145	73	62	135

Staff turnover by province

Province	2017 Turnover	(%)
Central	14	10
Eastern	4	3
Northern	4	3
North Central	2	1
North Western	5	3
Sabaragamuwa	4	3
Southern	15	10
Uva	4	3
Western	93	64
Total	145	100

Employee benefits

Salaries paid to employees are governed by a collective agreement. The average cost per employee has increased from LKR 1.465 Mn. in 2016 to LKR 1.636 Mn. in 2017.

All permanent employees enjoy a variety of benefits in addition to their basic salary, as part of their remuneration package:

- Comprehensive medical and insurance scheme
- Half a month's salary as a holiday incentive
- Special allowances for cashiers and employees located in difficult stations
- Two-month fixed bonus (certain grades are subject to one month's fixed bonus and variable performance bonuses)
- Holiday bungalow facilities
- Staff loans at concessionary rates for Housing, Vehicle, Computer and Education
- Spousal support in the event of death
- Financial support for professional and postgraduate studies by reimbursing membership fees of professional bodies
- Critical illness cover
- Life assurance scheme for staff

Staff benefits

	2017 LKR '000	2016 LKR '000	2015 LKR '000
Staff salaries			
Basic salary	2,956,081	2,634,154	2,355,912
EPF 12%	354,475	316,171	282,259
ETF 3%	88,618	79,067	70,572
Total	3,399,174	3,029,392	2,708,743
Other benefits			
Holiday pay	113,897	105,172	94,885
Medical	78,509	76,875	77,839
Bonus	536,251	466,006	478,714
Insurance	123,283	116,345	105,835
Welfare	66,055	63,300	51,679
Other allowance/benefits	632,175	530,165	501,587
Amortisation of prepaid staff cost	246,519	222,818	174,853
Total other benefits	1,796,689	1,580,681	1,485,392
Total benefits	5,195,863	4,610,073	4,194,135
Training cost	39,051	25,571	17,983
Total benefits including training cost	5,234,914	4,635,644	4,212,118
Headcount	3,199	3,165	3,085
Average benefits per employee	1,636	1,465	1,365

The Bank also changed the retirement policy by extending the retirement age from 55 years to 57 years.

Staff satisfaction

The Staff Satisfaction Survey attempts to gauge the effectiveness of the Bank's Human Resources Policy by assessing the morale of the staff. The results of the survey conducted in 2017 are as follows:

Staff satisfaction survey



Employees who obtained parental leave and returned to work

	2017	2016	2015
Number of staff	45	54	75
Returned to work (%)	100	100	100

Recognition and motivation

The basis of salary increment recommendations and identification of training and development needs are arrived at through staff appraisals which are carried out annually.

The Bank also operates employee award schemes to celebrate success and to inspire others to reach new heights ethically

The Bank also operates employee award schemes to celebrate success and to inspire others to reach new heights. Branches that achieve their KPIs are rewarded with additional benefits and rewards given, based on the performances of the branches. The evaluation is transparent, where the criteria are announced to the staff in advance, through the involvement of a subcommittee consisting of Senior Management.

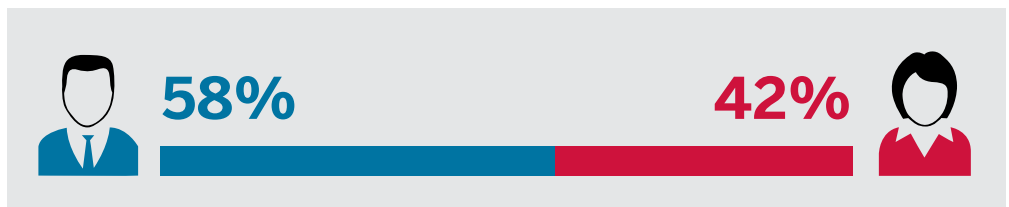
This year saw the introduction of the "Seylan Got Talent" show that encourages the staff to demonstrate their talents and feel part of Seylan Bank family.

Gender equality

The equal treatment of males and females is high on the agenda of Seylan Bank when staff appointments, continuing professional development and training and remuneration are considered within the Bank.

	2017					2016				
	Male	%	Female	%	Total	Male	%	Female	%	Total
Corporate management	21	75	7	25	28	18	82	4	18	22
Middle management	153	71	63	29	216	132	69	59	31	191
Operational management	599	56	477	44	1,076	575	55	477	45	1,052
Others	1,074	57	805	43	1,879	1,078	57	822	43	1,900
Total	1,847	58	1,352	42	3,199	1,803	57	1,362	43	3,165

Employee composition by gender

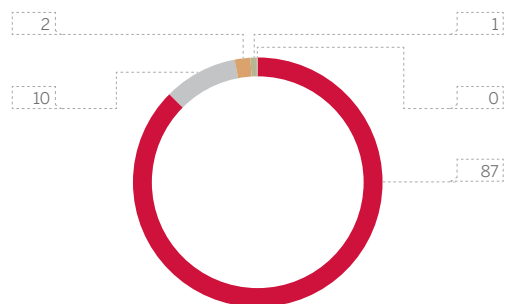


Diversity and inclusion

Diversity and inclusion are pivotal to the Bank's values and it is proud to be widely recognised for its progressive workplace practices and initiatives that promote inclusion. Workplace diversity fosters mutual respect amongst employees. Seylan Bank recognises the power of its people and values their differences, in thought, age, religion, gender identity, culture, ethnicity, and experience. It believes that its diversity makes it a stronger company.

Staff ethnic group-wise 2017

- Sinhalese
- Tamil
- Muslim
- Burger
- Other



(%)

Workforce based on the Ethnic Group

	2017			2016		
	Male	Female	Total	Male	Female	Total
Sinhalese	1,626	1,172	2,798	1,606	1,191	2,797
Tamil	160	146	306	144	139	283
Muslim	46	19	65	41	17	58
Burgher	13	13	26	11	13	24
Other	2	2	4	1	2	3
Total	1,847	1,352	3,199	1,803	1,362	3,165

Workforce by province and gender

The Bank's workforce is predominantly from the Western Province (68%). In order to promote an equitable regional distribution of staff, the Bank's recruitment practices are directed towards the engagement of resources from different provinces of the country.

Province	2017						2016									
	No. of branches		No. of staff		Male		Female		No. of branches		No. of staff		Male		Female	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Central	15	197	107	54	90	46	15	179	98	55	81	45				
Eastern	12	120	73	61	47	39	12	111	68	61	43	39				
Northern	10	108	69	64	39	36	10	96	61	64	35	36				
North Central	12	103	79	77	24	23	12	94	70	74	24	26				
North Western	15	144	91	63	53	37	15	154	95	62	59	38				
Sabaragamuwa	10	130	80	62	50	38	10	119	76	64	43	36				
Southern	13	160	103	64	57	36	13	148	97	66	51	34				
Uva	7	60	44	73	16	27	7	61	46	75	15	25				
Western	72	2,177	1,201	55	976	45	72	2,203	1,192	54	1,011	46				
Total	166	3,199	1,847	58	1,352	42	166	3,165	1,803	57	1,362	43				

Remuneration – based on the gender

	2017								2016							
	Basic salary (Monthly)		Total No. of staff		Average basic salary (Monthly)		Salary ratio	Basic salary (Monthly)		Total No. of staff		Average basic salary (Monthly)		Salary ratio		
	LKR Mn.				LKR Mn.		M/F	LKR Mn.				LKR Mn.		M/F		
	Male	Female	Male	Female	Male	Female		Male	Female	Male	Female	Male	Female	M/F		
Corporate management	9.34	2.47	21	7	0.44	0.35	1.26:1	7.62	1.40	18	4	0.42	0.35	1.21:1		
Middle management	28.74	11.49	153	63	0.19	0.18	1.06:1	22.95	10.27	132	59	0.17	0.17	1;1		
Operational management	54.15	43.74	599	477	0.09	0.09	1:1	47.56	39.55	575	477	0.08	0.08	1;1		
Others	56.39	41.18	1,074	805	0.05	0.05	1:1	52.04	35.48	1,078	822	0.05	0.04	1.12:1		

Workforce – based on service period

	4 Years or below	5 to 8 years	9 to 12 years	13 to 16 years	17 to 20 years	More than 20 years	Total
Corporate management	13	5	-	-	-	10	28
Middle management	42	2	6	4	16	146	216
Operational management	34	12	141	93	237	559	1,076
Others	552	117	734	141	203	132	1,879
Total	641	136	881	238	456	847	3,199



Training and education

Training of the Bank's employees is essential to the development of the individual and the resulting success it brings to the Bank. As the Bank strives to compete successfully in the corporate arena, it has realised that investing in continuing education and training of its employees will not only benefit the employee but the Bank as well. Consequently, the Bank has adopted a comprehensive development plan which encompasses technical and soft skills training, leadership development, on the job training, experiential learning, and counselling. All Bank employees discuss their career development with their respective managers as part of the annual appraisal.

The Bank's Skills Development Centre carries out the training of its staff according to a training calendar which is based on the requirements of the staff. The staff is kept informed of available training through the circulation of the monthly training calendar amongst all staff.

Number and duration of training programmes

	2017			2016		
	No. of programmes	Training hours	No. of participants	No. of programmes	Training hours	No. of participants
Internal	234	69,236	5,391	212	65,225	5,356
External	125	4,998	362	129	4,801	339
Foreign	8	496	11	20	608	26
Online-learning	2	3,880	970	N/A	N/A	N/A
Total	369	78,610	6,734	361	70,634	5,721

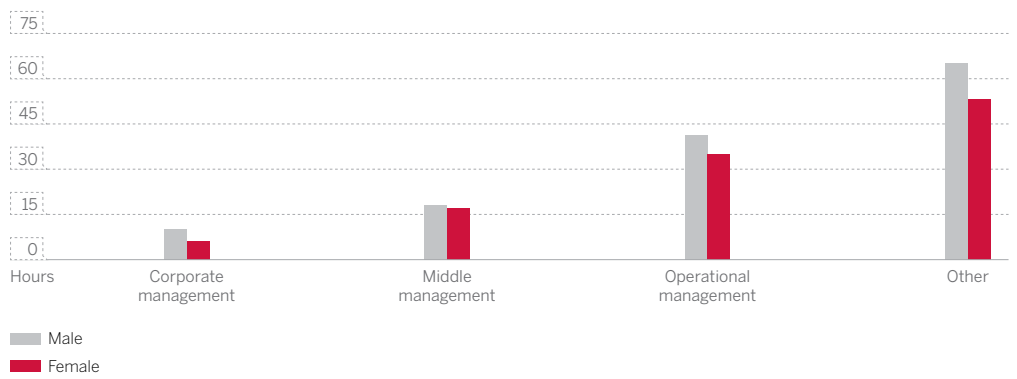
This year's highlights on staff training are as follows:

- Regional training programmes on lending and credit risk, product knowledge, marketing, pawning operations etc.
- 12-Team Building programmes with 591 participants to enhance team spirit amongst the staff.
- Leadership Transformation Programme to develop future leaders designed for those in "Manager" grades and above.
- Training for new job functions: SME Hub, Relationship Officers, and Multiple Service Counters.

- On-line learning – 650 participants in KYC and anti-money laundering e-learning programme and 320 participants for service quality e-learning modules;
- Continuous training and orientation programmes on new products, customer care, communication skills, technical specialties, leadership, soft skills, internal control, risk, and compliance amongst the existing staff and new recruits of the Bank.

Names of training modules	2017			2016		
	No. of programmes	Training hours	No. of participants	No. of programmes	Training hours	No. of participants
General banking practices	226	36,754	2,763	218	35,602	2,864
Professional development	16	3,700	540	12	911	83
Communication and negotiation skills	11	2,122	182	16	1,637	190
Marketing and marketing communications	27	9,708	833	31	9,322	927
HR management, staff/personnel development	46	16,796	1,006	45	15,909	934
Compliance and specialised areas	43	9,530	1,410	39	7,253	723
Total	369	78,610	6,734	361	70,634	5,721

Average hours of training per employee by gender and employee category



	2017					2016				
	Academic qualifications		Professional qualifications		Total	Academic qualifications		Professional qualifications		Total
	Male	Female	Male	Female		Male	Female	Male	Female	
Below 20	-	-	-	-	-	-	-	1	1	2
21-30	12	5	125	73	215	14	12	136	134	296
31-40	48	69	221	296	634	56	43	237	182	518
41-50	79	106	234	277	696	79	59	218	157	513
Above 50	9	9	18	28	64	7	7	27	14	55
Total	148	189	598	674	1,609	156	121	619	488	1,384

Training for awareness



The staff is kept informed through circulars and internal memos on product development, policies, procedures, regulatory changes, and developments. The communiques are initiated by the respective departments and issued centrally through the Operations Department. Procedure Manuals which are in place for all products and services are updated regularly. Similarly, operational policies are reviewed and updated periodically. As and when required, training is conducted on all new products and procedures.

Employee sports and other activities



Many sporting and cultural activities are held during the year to maintain staff motivation levels, encourage networking and bonding, and promote team spirit such as, sourcing discounts and concessions at external organisations, conducting events such as *Bakthi Gee*, Christmas Carols etc. which not only assists employees financially but also boosts their morale and motivation. Seylan welfare committee is also being part of these programmes.

Occupational health and safety

The Management Board at Seylan Bank is responsible for organising occupational safety activities using an integrated management system and in compliance with the statutory regulations. The purpose is to foster health and safety in the working environment, systematically organising it and consistently treating it as a Bank responsibility towards the staff. The Bank also ensures the business continuity plan is in place, tests it and reviews it annually to make sure that it creates a hazard-free environment for its employees. Basic safety instructions are prominently displayed at Head Office and at all Seylan Bank branches. As a service sector organisation, its employees are not exposed to the risk of occupational diseases.

	2017	2016	2015
Staff covered by the health plan (%)	100	100	100
Average medical claims per employee (LKR)	24,542	24,289	25,230
Occupational inquiry	Nil	Nil	Nil
No. of occupational diseases	Nil	Nil	Nil
No. of lost days rate	Nil	Nil	Nil

Human rights

Human rights policy

Seylan Bank is committed to uphold the human rights standards enshrined in the Universal Declaration of Human Rights and the conventions of the International Labour Organization (ILO). These cover the elimination of all forms of compulsory labour: the effective abolition of child labour: and the elimination of discrimination with respect to employment.

Seylan Bank policies and practices promote and protect human rights. The Bank strives to conduct its banking operations in a manner consistent with the United Nations Universal Declaration of Human Rights and the International Labour Organization's Fundamental Conventions. The Bank's Code of Conduct and its values embody its commitment to fair, ethical and responsible business practices, as it engages with its employees.

The Bank's Human Rights policy embodies the principle of treating each employee with respect and dignity

Seylan Bank is committed to treating every employee with respect and dignity and protecting their human rights. The Bank offers equal employment opportunity to all, does not tolerate discrimination or harassment, and is proud to be a leader in supporting diversity and inclusion. The Bank abides by labour laws and regulations including those that address child labour, forced labour, equal pay and non-discrimination in its workforce. The Bank strives to provide a safe and healthy work environment for all employees. In order to strengthen employee relations and maintain a zero-industrial dispute environment, the Bank provides continuous training on best practice in industrial relations, to its employees.

Grievances handling mechanisms

The employees at the Bank are able to avail themselves of the framework in the Bank's Grievance Policy to deal with difficulties which may arise as part of their working relationship. Procedures are in place to ensure that everybody is treated in the same way and dealt with fairly, reasonably and in a timely manner.

In case of a grievance, the staff can raise the matter with the immediate supervisor. If the issue remains unresolved it may be referred to the Bank's grievance handling committee.

The Bank has also introduced a "Log your Concern" system where employees are able to log any HR-related query or comment. The Bank has undertaken to respond to the logged concerns within 48 hours.

Non-discrimination, freedom of association and collective bargaining

The Bank has had no incidents of discrimination to date and has a zero tolerance of child labour. The Bank is committed to high standards of ethical and professional behaviour and expects all staff members to be treated with mutual respect. The Bank considers freedom of association as a right of each employee.

The Bank recognises the Ceylon Bank Employees Union (CBEU) and Seylan Bank Employees Union (SBEU) in which 99% of its staff across all grades are members, as a consultative and supportive group that articulates a forum for improved communication, grievance handling, career counselling, and creating a healthy working environment for the employees.

Whistle-blowers protection

Protecting the integrity and reputation of Seylan Bank requires the active support of all staff members who are required to report such incidents and infringements. To facilitate the reporting of such incidents, Seylan Bank has adopted a Whistle-Blowing Policy which contains procedures that employees can follow if they have concerns about wrongdoing or illegality in the Bank's operations, which may have an adverse impact on the reputation of the Bank.

The Bank will ensure staff members who report irregularities in good faith, are afforded confidentiality and the maximum degree of protection against any retaliation or reprisals, whether actual or threatened, as a result of their actions.

Security training

Security services at all Seylan Bank premises are provided by an external organisation. The mandatory basic training is provided by the respective service provider and is facilitated by the Bank. Periodic tests and awareness programmes are carried out and checked by the Controller Intelligence and Security of the Bank to ensure the service meets the requirements of the Bank.

The Bank also conducts training for security personnel on customer care, to ensure they fulfil their role at the Head Office and at all branches.

Child labour, forced or compulsory labour, indigenous people's rights and assessments

	2017	2016	2015
Number of incidents of discriminations	Nil	Nil	Nil
Number of incidents from forced or compulsory labour	Nil	Nil	Nil
Number of child labour related issues	Nil	Nil	Nil
Number of identified violations involving the rights of indigenous people	Nil	Nil	Nil

Pending litigation

Pending litigation against the Bank has been reported in Note 46 of the Financial Statements.

Key performance indicators – labour relations and human rights

	2017	2016
CBEU and SBEU membership	3,170	2,931
Membership (%)	99	93
Number of hours of staff trained on HR policies and procedures relevant to operation	246	96

Minimum notice period

The Bank conducts discussions with employees and representatives of Trade Unions on significant operational changes including transfers, promotions or disciplinary actions. In this regard, three months notice in respect of senior level employees and one month's notice in respect of all other employees is to be given where practical, to help minimise any adverse impacts arising out of operational changes.

Initiatives to improve staff well-being

The Bank has initiated several programmes to promote a sustainable work-life balance for employees:

- Business Continuity Plan in place to address safety for all the staff in case of an emergency;
- Provide safe drinking water and a standard lighting system at Head Office and at all the branches;
- Conduct Fire Drills to create awareness and readiness amongst the staff in the event of an emergency. Team leaders, fire wardens, evacuation wardens, at each level of Head Office and branches are appointed and instructed, on each of their roles when dealing with emergencies;
- Introduce flexi working hours to help employees manage their personal as well as official responsibilities.

The Bank has initiated several programmes to promote a sustainable work-life balance for employees

Future outlook

- Strengthen staff recognition and motivation processes
- Improve training and development on banking products and service excellence
- Enhance opportunities for career development
- Foster employee volunteerism
- Consolidation of multitasking environment in branch banking with multi service counter proposition
- Strengthening the performance driven environment across the Bank
- Position-based competency development aiming at talent pool creation to ensure availability of required skills for new business initiatives
- Fast tracking of career progressions for juniors and middle-level positions to meet the business demand
- Capitalising on cost effective manpower solutions and rationalisation

Trusted Partners

Building loyal relationships with suppliers and business partners and conducting business at the highest ethical standards

Highlights

Over **LKR 220** Mn. to promote locally-based customers

Non-discrimination in selecting suppliers



Promote ethical practices



USD 75 Mn.
Long-term funding for SME lending

Operational excellence award winner



Over **320**
Global correspondent banks

Close connectivity



Sharing mutual benefits

New relationships

Loyal relationships



Seylan Bank considers suppliers and business partners as one of its critical stakeholders and pursues the following key priorities in those relationships:

- Build loyal associations; and
- Have sound ethical standards and practices in all dealings.

The Bank has also built successful relationships with a multitude of business partners who feature in its value creation process.

The Bank was presented the “Operational Excellence Award” by Wells Fargo Bank, New York in recognition of its operating efficiencies and excellent commitment towards customer needs.

Loyal relationships

The Bank has general memberships in a number of sectoral, industrial and professional organisations which helps the Bank keep well-informed of local and international best practices in the banking business.

- | | |
|---|--|
| <ul style="list-style-type: none"> • Employers’ Federation of Ceylon; • Credit Information Bureau; (EFC) • Institute of Bankers of Sri Lanka (IBSL); • Lanka SWIFT User Group (LSUG); • Sri Lanka Banks’ Association (Guarantee) Limited; • The Ceylon Chamber of Commerce; • The Clearing Association of Bankers; • The National Chamber of Commerce, Sri Lanka; | <ul style="list-style-type: none"> • Association of Banking Sector Risk Professionals; • Association of Compliance Officers of Banks, Sri Lanka; • Association of Professional Bankers Sri Lanka (APB). • Biodiversity Sri Lanka |
|---|--|

The Bank also has its regular connections with professional bodies such as The Institute of Chartered Accountants of Sri Lanka, Chartered Institute of Management Accountants, Association of Chartered Certified Accountants, Certified Management Accountants, Sri Lanka Institute of Taxation etc.

Seylan Bank's correspondent banks comprise some of the world's largest financial institutions. The current relationships number over 320 global correspondent banks.

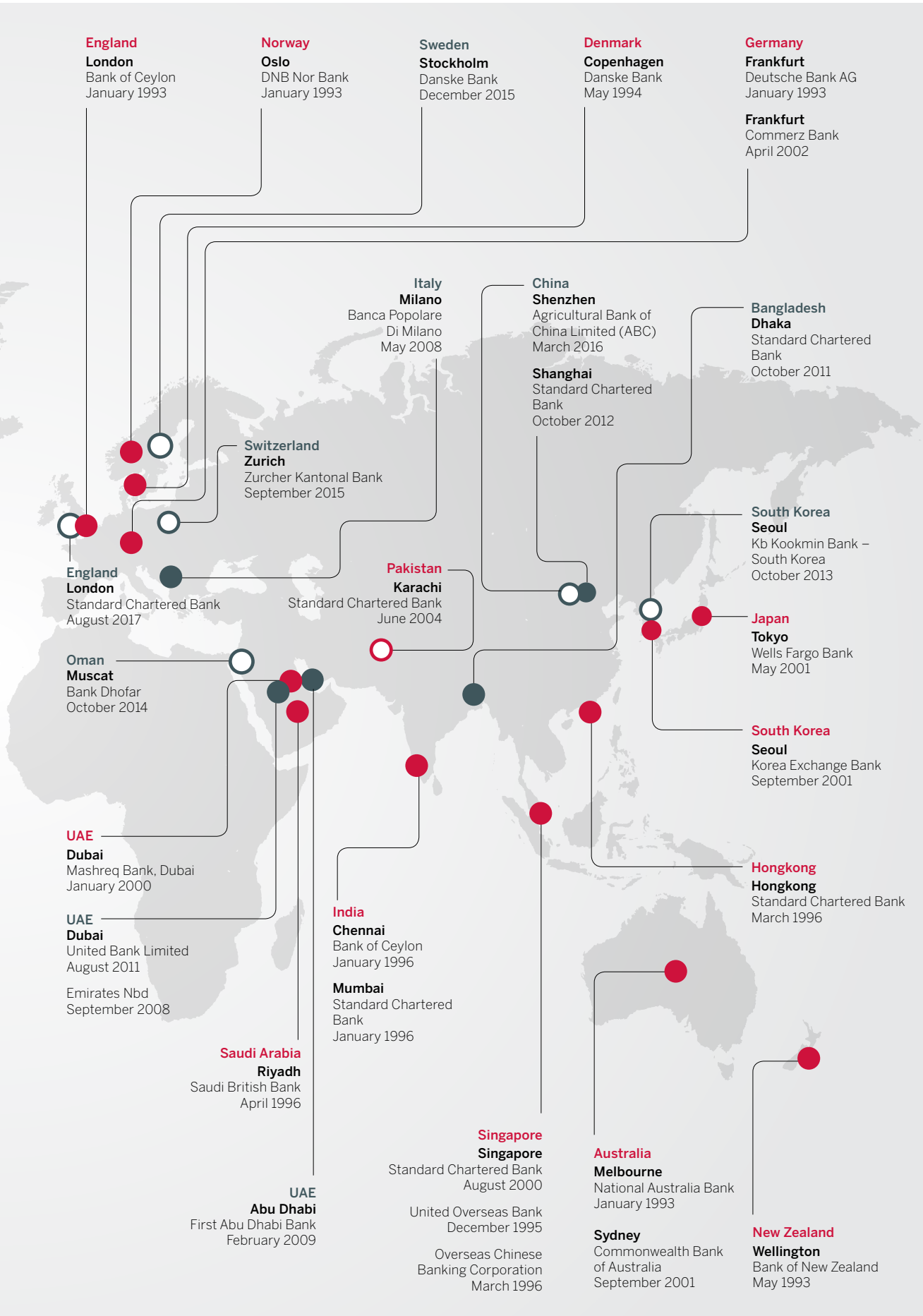
- Relationship more than 15 years
- Relationship between 5-10 years
- Relationship between 10-15 years
- Relationship Less than 5 years

Close connectivity

The following banks visited Seylan Bank during the year to strengthen the relationships:

- Axis Bank, India
- Habib American Bank, NY
- ICICI Bank, India
- Landes Banken, Germany
- Swed Bank, Sweden
- Caixa Bank, Spain
- United Overseas Bank, Singapore
- British Arab Commercial Bank, United Kingdom
- Wells Fargo Bank, New York
- Mashreq Bank – New York
- Emirates Bank, UAE
- Commerzbank, Germany
- Bank Muscat, Oman
- Societe Générale, France
- Danske Bank, Denmark
- Bank of Ceylon, Chennai
- Habib Bank AG Zurich





Sharing mutual benefits

In confirmation of the mutually beneficial business relationships with Seylan Bank, the following banks invited the Bank's staff, for seminars conducted by them during this year:

- "New Trends Related to International Trade" – conducted by Wells Fargo Bank, one of our main USD correspondent banks.
- "Correspondent Banking Compliance Forum for Banks" – conducted by Standard Chartered Bank.

New relationships

Seylan Bank entered into new relationships with following correspondents, strengthening the Bank's global networking channels:

- Arab National Bank
- British Arab Commercial Bank, UK
- United Amara Bank, Myanmar

Credit lines

New interbank limits were established with the following banks:

- HDFC Bank, India
- Industrial Bank of Korea, South Korea
- Bank Al Jazeera, Saudi Arabia

The Bank achieved a historic milestone in its banking history by successfully securing a long-term funding facility of USD 75 Mn. from five separate financial institutions. The amount has been raised through globally recognised Development Finance Institutions (DFIs). These funds were raised in order to improve Small and Medium Enterprises lending. SME growth is vital for economic development of the country and is also one of the key area of focus in the Bank's 2017-2020 Strategic Plan.

Ethical practices

The Bank follows a transparent tender process in respect of all procurements. Designated teams and committees respectively, conduct price negotiations depending on the contract value. All suppliers' information is treated confidentially in accordance with the Bank's Sustainability Strategy and Corporate Procurement Strategy. The Bank follows a strict policy of non-discrimination when selecting suppliers, regardless of the size of their businesses. Environmental and Social considerations are integral to the procurement process.

Transparency in all dealings with stakeholders and the practice of the uppermost standard of ethics, form the cornerstone of the Bank's operations

In terms of internal processes, the Bank requires departments and branch offices to review their consumption of goods and services in a bid to reduce usage, recycle, and reuse when possible.

The Bank requires all contractors, suppliers, and consultants to adhere to the highest standard of ethics during procurement and execution of contracts. The Bank expects all suppliers to operate responsibly, improving the lives of workers, their

communities, and the environment. The Bank has so far, not identified any incidents of forced or compulsory labour practices or child labour issues amongst its suppliers.

The Bank requires all suppliers to follow the following guidelines if they are desirous of dealing with the Bank:

- Ensure that policies are in place to eliminate fraudulent activities, money laundering etc.
- Have reasonable and lawful payment policies with their own suppliers and subcontractors

- Support fair-trade and ethical sourcing practices relevant to the goods or services provided to the Bank
- Respect human rights and strive to improve the lives of the people and communities in which they operate
- Not engage in or support trafficking in human beings

Promote locally-based suppliers

The Bank's operating practices require the engagement of external resources to supplement the efforts of its own employed personnel, thereby creating short-term employment opportunities for outsiders. As part of the process, the Bank makes every possible attempt to select local suppliers/ service providers in the vicinity of its branches, to satisfy the requirements. Stationery, which is a major consumable of the Bank, is purchased from local suppliers.

Cost of services obtained locally in the vicinity of branches

	2017 LKR Mn.	2016 LKR Mn.	2015 LKR Mn.
Tea and coffee	35.07	33.65	35.02
Subsidised lunch for staff	59.16	57.07	52.90
Supply of foliage/maintenance of fish tanks	4.12	4.87	4.96
Janitorial and courier services	84.35	71.83	60.74
Repair and maintenance	25.77	36.33	18.72
Drinking water	10.85	11.38	11.14
Newspapers	3.31	3.21	2.71
Total	222.63	218.34	186.19

Future outlook

- Strengthen the networking and strategic alliances
- Maintain sustainable business through long-lasting relationships with all the suppliers and business partners
- Promote ethical business practices amongst the suppliers and business partners

Responsible Corporate Citizenship

Individuals, mass community and wider environment are never separable but their sustainable interactions create synergy towards accomplishing greater economic impact. Seylan Bank strives to build promising bridges to connect them all while fostering livelihoods and their growth momentum and rejuvenating them to be independent and responsible citizens of Sri Lanka

Highlights

Over **150**

“Seylan Pahasara”

libraries as at end 2017



Environmental and social Management System (ESMS) is in progress

Over **LKR 25 Mn.**

Community investments



Over **141,000kg**

Paper recycled

Over **120 events**

“Tikiri” kids banking days and other engagements



Over **10,000**

Paperless credit appraisals

10

SME capacity building programmes



2,408

Saved 2,408 trees through waste management

98

student saving centres



39% **CO₂**

Reduction in carbon footprint through paper recycling

Social responsibility

Community policy

Seylan Bank is committed to community development and believes it to be a process of empowering individuals and groups to improve their livelihood within their community as opposed to fostering dependency. The Bank seeks to progressively shift its voluntary CSR activity into the realm of meaningful sustainability.

The Bank's approach to fulfilling its social responsibilities extends beyond obligations and focuses on activities that contribute towards sustainable development of the community and the country at large, hence leading to economic prosperity amongst the widest range possible, of the populace.

All efforts in this regard are undertaken with the active participation of the Bank's island-wide network of branches. Aligned to Bank's value-added, strategy driven, Corporate Social Responsibility (CSR) approach, all projects are structured to deliver meaningful value to communities across the country.

Fostering "Education"

As part of the long term social engagement, the Bank is firmly of the view that education forms the basis for making the community able and capable. It is believed that societies of literate and skilled individuals have better chances of development by attracting far greater opportunities.

"Seylan Pahasara" library project



Commemorating the 25th Anniversary of the Bank and as a pledge towards community "Seylan Pahasara" Library Project was launched on 1 March 2013. Since then, 153 libraries have been transformed at underprivileged schools island-wide, providing students an environment which is conducive to reading and spending time in a place which is abundant in learning resources.

Seylan Bank identifies the roots of long-term prosperity and propels its CSR in harness with education

Thirty-three new libraries were built in year 2017, bringing the total to 153. The project is in its 2nd phase to achieve 250 libraries by 2019. It has also been upscaled where the Bank decided to donate two computers with Internet access to facilitate the download of e-books, based on the requirements of the respective schools.

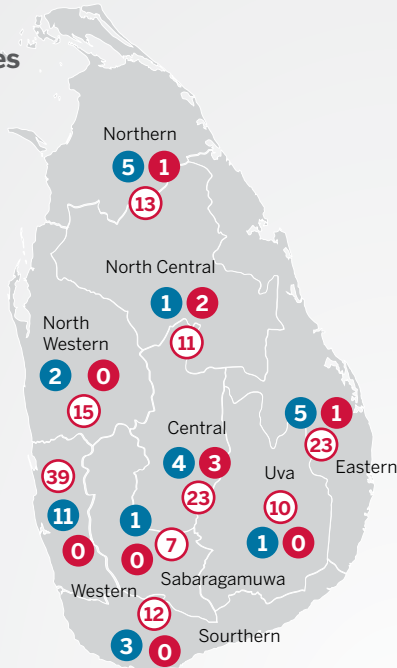
Ensuring continuity of the project, the Bank revisits libraries built in previous years on a rotational basis, to replenish books and enhance the infrastructure. Also, "Seylan Pahasara" has been signified by planting a tree, intended to make students also aware of the importance of nurturing the environment around them.

The Bank spent LKR 11.64 Mn. on "Seylan Pahasara" during 2017.

Island-wide distribution of new libraries and revisits completed during the year and total distribution as at 31 December 2017

No. of libraries

- New
- Revisits
- Total as at date



Scholarship programmes



Seylan Bank has been offering support to Grade 5 students by providing them access to modulated scholarship seminars and build confidence. Branch network and passionate staff were instrumental herein to modulate the programme focusing productive output.

“Tikiri Pola” engagements with pre-schools



Seylan Bank expends efforts to promote the habit of saving from a tender age by visiting schools throughout the island and meeting primary students, their parents and teachers. The message that’s communicated to them includes making them aware of the characteristics of banking. “Tikiri Pola” is gaining a reputation as a simple and outbound programme that teaches financial literacy in a simple way in simple steps.

Sponsorship for “Sunera Foundation”



Seylan Bank sponsored the Horana Workshop of the “Sunera Foundation” over a period of three consecutive years, having made donations worth LKR 350,000.00 in each of the three years (2015 to 2017), towards the upbringing of special needs children who are otherwise completely isolated from the general community.

Devamulla primary school



Seylan Bank pays continuous attention to the development of micro-social segments through educational means. In this regard, the Bank donated to the students of Devamulla Primary School in Horana, exercise books and stationery needed for the whole year 2018, along with other general requirements of the school. The Bank also financed building a roof joining two wing buildings and the installation of two indoor wash basins. The Bank has been supporting educational needs of the village over the last seven years.

Staff volunteerism at “Apeksha” hospital for the second consecutive year



Commemorating the “Vesak” Festival, all staff volunteered to buy most needed medicines and sophisticated infusion pumps to donate to “Apeksha” Hospital at Maharagama, catering to the needs of cancer patients. In addition, a Seylan Bank team paid visits, ward by ward, singing “Bakthi Gee” accompanied by a group of oriental musicians. The generosity of the staff also extended to fulfil few other hospital needs.

Our approach towards enhancing financial literacy

Other educational and community-related sponsorships

Seylan Bank has been instrumental in providing various sponsorships and philanthropy ranging from influencing quality education, sports and recreation, and religious affairs and community-related aspects as tabulated below:

Focus	Sponsorship amount LKR Mn.
Cultural and recreation	1.83
Educational pursuits	3.51
Youth, women, special needy persons and entrepreneur related	1.40
Honourarium for servicemen and other	1.22
Sports and social gathering	1.12
Religious affairs	4.87
Victims of environmental threats and other	0.76
Total	14.71

Kids' banking day and engagements with kids



Seylan Bank has been conducting a Kids' Banking Day once a month to influence saving habits of children.

More practically, Bank promotes a learning culture for kids availing them with opportunities through in-house and outbound activities such as Art Competitions, Essay competitions, kids movie shows, city tours and carnivals.

Team volunteerism

Seylan Bank encourages volunteerism amongst staff who have shown a desire to collaborate with the CSR arm of the Bank. Branch Anniversary celebrations are generally commemorated with charitable events where staff time is allocated and encouraged. Those comprise blood donation campaigns, arms giving at orphanages, elders' homes including religious observances paying equal respect to every main religion practiced in the area.

Community well-being through products and services

Housing loans

The Bank offered easy and flexible terms and conditions on its housing loans to the low and middle-income consumers. It also encouraged savings and employment opportunities to artisans in the housing industry, in a bid to raise their socio-economic status. The following table shows the distribution of housing loans granted over the years.

	2017	2016
Number of housing loans granted	719	1,033
Amount granted (LKR Mn.)	3,157	3,315

Promoting entrepreneurship through SME



More opportunities for women and youth as the Bank bids to foster entrepreneurship of a vital segment in society and development pursuits

Separate SME unit and SME hubs were formed to pay special attention on the areas of entrepreneur development and also of women and youth being a potential segment.

Senior citizens and special need customers

Seylan Bank pays due attention to senior citizens as an inevitable mark of respect for their valuable contributions made in various ways to community and the country at large. Also the doors are wide open to special need customers to get their

banking solutions made without hassle and embarrassment. There is a special service counter and a designated staff member deployed in every branch to ensure their banking experience to be a happy and convenient one.

Seylan student savings centres

With a view to build long-term relationships with minds of future, Bank interacts well with 98 student savings centres island-wide specially training students to manage the centre with proper book keeping and other internal controls and train them to be leaders of positive attitudes in their active and responsible roles.

Being a responsible corporate citizen

Seylan Bank’s operations are structured to comply with all statutory and legal requirements while safeguarding the interests of all stakeholders.

Compliance	Level/status of compliance and actions taken
Percentage and total number of business units analysed for risk in relation to corruption and the percentage of employees trained in the Bank’s anti-corruption policies and procedures	Prevailing gaps are identified through audit trial and the training programmes as listed below are used to mitigate them.
Actions taken in response to incidents of corruption	The Seylan Bank takes its responsibility seriously, enforcing stringent controls, internal audit procedures, and staff disciplinary codes in all operations comprehensively.
Participation in public policy development	On the invitation of the Government of Sri Lanka, the Bank presents rational proposals and engages in new policy formulations such as Government Budget and tax laws.
Total value of financial and in kind contributions to political parties and politicians	No contributions were made to political parties or politicians. During the course of business the Bank carried out its transactions according to the arm’s-length principle.
Number of legal actions taken for anti-competitive behaviours	The Bank consistently complies with the country’s laws and regulations in conducting its marketing campaigns. This includes displaying banners, conducting sales campaigns and road shows, and using sound systems without any form of financial mis-selling. No legal action was taken against the Bank for any anti-competitive behaviour during the year.
Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	No fines or non-monetary sanctions were made against the Bank during the year. All laws and regulations applicable to the Bank were complied with. To enable effective monitoring a monthly compliance report is tabled at Board meetings.

Training for being compliant

Type of training	2017		2016	
	No. of programmes	No. of participants	No. of programmes	No. of participants
General banking practices	226	2,763	218	2,864
Anti-money laundering/KYC	14	312	14	397
System security	4	105	9	131
Accounting and auditing	19	217	16	195

Promote financial inclusiveness and foster investments

Seylan Bank understands the varying community capacity levels. Accordingly, the Bank caters to this diversity with appropriate solutions. The Bank is committed to guide them in their businesses to enable them to actively contribute to the country's GDP while creating employment opportunities in their respective fields, which also enhances their standard of living.

Refinance and subsidy schemes to support the needy sectors for economic development of the country

Name of the Scheme	Donor	Eligible sector(s)	Loan granted in			
			2017		2016	
			No. of loans	Amount LKR Mn.	No. of loans	Amount LKR Mn.
Asian Development Bank Loan	Asian Development Bank	Small and Medium Entrepreneurs (SME)	46	540.98	-	-
"Saubagya" propensity loan scheme	GOSL	SME	10	145.64	29	19.07
Small and Micro Leader and Entrepreneur Promotion Project (SMILE III)	Japan Bank for International Co-operation	SME	37	247.70	145	1058.31
"Kapruka Ayojana"	GOSL/CBSL	Coconut Cultivation	26	16.47	37	16.11
"Athwela"	GOSL/CBSL	Economic activities affected by natural disasters	3	1.50	-	-
"Swashakthi"	GOSL/CBSL	Micro Small and Medium Entrepreneurs (MSME)	9	2.14	-	-
Commercial scale dairy development loan scheme	GOSL/CBSL	Commercial scale dairy farmers and processors of dairy products	15	56.30	17	33.85
New comprehensive rural credit scheme	GOSL/CBSL	Agriculture	1,404	298.77	1,016	192.39

GOSL/CBSL – Government of Sri Lanka/Central Bank of Sri Lanka

Future outlook

- SME as a main pillar of Strategic Plan 2020
- Fourteen (14) SME hubs to facilitate financing for projects in respective areas creating employment and capital requirements
- Foster education, together with 250 libraries and other education-related engagements
- Promote IT literacy through "Seylan Pahasara" library project
- Promoting investment, local purchases, entrepreneurship development in the SME sector, while adding indirect employment and other services to the economy

Environmental stewardship

Environmental policy

We have a long-standing commitment to minimising both the direct and indirect impact on our environment arising from our business activities, whilst at the same time doing everything we can do to protect and replenish the natural resources around us. Accordingly, the Bank ensures not only are its products and services compliant with applicable environmental and social impact but also the projects it supports during the normal course of business.

Seylan Bank, conducts its business in a responsible manner, screening its banking products and services, from the environmental perspective, to mitigate any direct or indirect detrimental impact while exploring opportunity to enhance positive environmental impact.

The Bank continues to monitor its efficiency in utilisation of resources such as electricity, paper etc. Given the nature of its business however, the impact of the Bank's operations on the environment is limited.

Regardless, Seylan Bank has adopted many initiatives to make its operations environmentally sustainable by optimising energy efficiency and minimising paper wastage, to reduce its carbon footprint while carrying out green initiatives to enhance the positive impact.

Details of the Bank's sector-wise credit exposure are given as a Note 24.1.3 to the Financial Statements on page 256.

Ethical environmental practices



Loans and advances to the Bank's customers are screened to comply with best environmental management practices in a bid to mitigate indirect adverse impacts on the environment. In addition, the Bank obtains Environmental Protection Licences (EPL) from relevant borrowers in compliance with the guidelines stipulated by the Central Environmental Authority (CEA).

Seylan Bank endorses an ESMS exploring more opportunities for our stakeholders to be environment friendly and socially responsible corporate citizen

The Bank is in the process of developing a comprehensive Environmental and Social Management System (ESMS) with an objective to manage the Environmental and Social Risks and impacts arising from its financing activities.

ESMS aims to gauge the financing activity of the Bank to undergo screening against a stringent exclusion list, environmental and social risk categorisation tool and due diligence requirements based on the intensity of the impact

and initiating potential dialogue between borrower and the Bank to draw out necessary action plans and covenants to fully comply with the environmental and social best practices as per local laws, rules and regulations and international performance standards of International Finance Corporation (IFC) and International Labour Organization (ILO) tailor-made to Sri Lankan context.

Having obtained the approval of the Board of Directors on the Environment and Social Risk Management Policy (ESRMP) which is an integral part of the ESMS, the Bank is now in the process of finalising the procedure document.

ESRMP will be integrated with the credit policy, lending guidelines and other risk management policies relevant and operative in the Bank and fully implemented after sensitising the staff and tested with necessary pilot runs.

Supporting transition towards greener economies, ESMS will arm Seylan Bank with prudent risk management tools and also create space for financing more green projects and grow from strength to strength as a socially responsible, economically viable and climate friendly financial institution in a sustainable outfit.

The Bank's strategic priorities in 2017 were:

- Resource efficiency and
- Ethical environmental best practices

Paperless business operations



The Bank reduces its usage of paper by having in physical form, only on relevant legitimate agreements and disclosures. In addition, the following initiatives were implemented:

- Annual report moved to integrated and made a significant change in 2017
- Communication throughout the Organisation is through the use of emails and e-Circulars
- The use of e-Board Paper System to view Board Papers via an iPad
- Training conducted using e-Media as against printing training material
- Biometric attendance records
- Implemented "Loan Origination System" as a paperless credit evaluation and monitoring tool
- Nine cash deposit machines were installed to promote e-channels

The Bank has been able to retain paper consumption closer to previous year despite increase of area offices and SME hubs.

Energy management

Since the Bank's primary source of energy is electricity, the Bank has been conducting regular reviews to enforce conserving usage. As a prudent transitioning from conventional equipment, the Bank installs inverter type air conditions and LED bulbs to all new branches and also in other places as required time to time.

Paper recycling and carbon footprint

141,624 Kg of paper was recycled and saved carbon footprint by 39%. YoY. Quantity recycled comprised paper accumulated over previous years.

Water management

Despite the Bank's operation not having a significant impact on the usage of water, it has put in place cost-saving measures, in addition to creating employee awareness.

Volume of water withdrawal by source:

Source	Year and water usage in units (U) per employee (e) [U/e]					
	2017	U/e	2016	U/e	2015	U/e
Tube wells, deep wells and national water board	77,685	24	79,335	25	81,828	27

Waste disposal and e-waste management

During the year, the Bank implemented the following waste management practices

- Waste is segregated into organic and non-organic and its disposal is in line with the Government's waste management initiative
- Replaced 600 computers reducing cost of maintenance and electricity while donating used computers to less privileged schools on request (Delivered 158 computers to 52 schools during the year)
- Reduced usage of toner and print cartridges with the advent of paperless processes

Replaced 600 computers reducing cost of maintenance and electricity

Biodiversity conservation

The bank has no operational sites, owned, leased or managed in protected areas of biodiversity. The screening process, via an ESMS, adopted in respect of loans and advances will mitigate any adverse impact that may be incurred by a funding project.

“Renewable Energy” and “Waste to Energy” projects

With a view to bringing in positive impact to environment and also foreseeing the infrastructure development and employment generation to community at large, Seylan Bank has been continuing potential dialogues with respective borrowers to finance two hydro projects and a syndicated financing on “Waste to Energy” project which may be completed in the year ahead. One hydro project is nearing commencement with final disbursement pending.

Emission management and transport

The main cause of GHG emissions in so far as the Bank is concerned, arises through the use of vehicles. The Transport Division of the Bank is charged with the responsibility of mitigating any adverse impact through prudent management initiatives as follows:

- Training provided to drivers on all relevant areas including safe and ethical driving etiquettes
- Periodic maintenance of vehicles
- Travel reduced by way of conducting training programmes through the use of e-Media
- Branches permitted to hire vehicles locally to reduce travel distances
- Electric and hybrid vehicle use encouraged
- e-friendly courier services used where applicable
- Replaced old vehicles with new ones

Supplier environmental assessment

The Bank does not monitor the environmental impact of its own suppliers where its impact is insignificant and remote to both the stakeholders and the Bank. However, the Bank insists, large scale suppliers to adhere to local laws and rules and regulations related to Environmental and Social best practices.

Environmental grievance mechanisms

During the year, there were no environmental grievances arising from the Bank's operations. ESMS which is underway will facilitate sufficient landscape herein.

Future outlook

- Promote a culture that invites voluntary and passionate engagement with collaborative environmental initiatives
- Continue creating awareness of the importance of the environment, both internally and externally
- Implementation of ESMS

Stakeholder group	Indicator of performance	Achievement					Indicator
		2017	2016	2015	2014	2013	
Environment	Electricity consumed (units kwh) (LKR '000)	8,767	9,165	9,362	9,342	9,587	G4-EN3
	Electricity consumption – units per employee (kwh)	2,741	2,896	3,034	3,170	3,144	G4-EN3
	Water consumption – units	77,685	79,335	81,828	77,344	77,746	G4-EN8
	Water consumption – units per employee	24	25	27	26	26	G4-EN8
	Generator diesel consumption (litres)	63,210	71,674	62,251	73,211	71,603	G4-EN3
	Vehicle petrol consumption (litres)	18,359	17,386	21,382	30,977	24,923	G4-EN3
	Vehicle diesel consumption (litres)	45,962	42,990	35,400	44,878	32,387	G4-EN3
	Lubricant consumption (litres)	680	685	481	1,261	387	G4-EN1
	Total business travels (Km)	511,523	396,625	545,002	363,134	356,410	G4-EN30
	Number of A4 paper purchased – packets	23,725	23,498	21,000	19,441	18,009	G4-EN1
	Weight of A4 paper (Kg)	284,700	281,976	252,000	233,292	216,108	G4-EN1
	A4 packets usage per business unit	130	141	132	124	119	G4-EN1
	Waste paper recycled (Kg.)	141,624	102,237	107,055	86,280	79,237	G4-EN23
	Savings from recycled papers						
Trees	2,408	1,738	1,820	1,466	1,347	G4-EN27	
Water (litres)	4,500,811	3,249,092	3,402,208	2,741,978	2,518,151	G4-EN27	
Electricity (kwh)	566,496	408,948	428,220	345,421	316,948	G4-EN6	
Oil (litres)	248,550	179,426	187,882	151,421	139,060	G4-EN6	
Land fill (cubic meters)	424,872	306	321	259	238	G4-EN27	
Carbon footprint (kg)	28,325	20,447	21,411	17,256	15,847	G4-EN27	
Government and Government institutions	Income tax (LKR Mn.)	2,226	1,723	1,946	1,571	1,138	G4-EC1
	Value added tax and nation building tax on financial services (LKR Mn.)	1,895	1,349	1,256	1,203	749	G4-EC1
	Total tax (VAT/NBT and income tax % of PBT)	48	43	46	47	45	G4-EC1

In what has been a challenging economic environment, the Bank recorded a growth of 10% of its profit after tax.

The Group achieved a milestone in reaching LKR 5 Bn. in profit after tax, for the first time.

The net asset value per share increased to LKR 96.50

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Financial Calendar

Financial calendar – 2017

	Released to the Colombo Stock Exchange (CSE)	Published in the newspapers
Interim Financial Statements (Audited) for the 4th Quarter/Year ended 31 December 2016	22 February 2017	13 March 2017
Final audited Financial Statements for the year ended 31 December 2016 and Annual Report – 2016	6 March 2017; Circulated to the shareholders – before 9 March 2017 and to the debenture holders in mid-March 2017	
1st Quarter/Three months ended 31 March 2017	26 April 2017	4 May 2017
2nd Quarter/Six months ended 30 June 2017	1 August 2017	9 August 2017
3rd Quarter/Nine months ended 30 September 2017	27 October 2017	31 October 2017
30th Annual General Meeting	Held on Friday, 31 March 2017 at the Kings Court, Cinnamon Lakeside Hotel, Colombo 2	
First and final ordinary dividend for the year ended 31 December 2016	Cash dividend paid and scrip dividend issued on 31 March 2017	

Proposed financial calendar – 2018

		Proposed date
Interim Financial Statements (Audited) for the 4th Quarter/Year ended 31 December 2017	To be released to the Colombo Stock Exchange (CSE)	On or before 28 February 2018
Final Audited Financial Statements for the year ended 31 December 2017 and Annual Report – 2017	<ul style="list-style-type: none"> To be released to the CSE and; to be circulated to the shareholders (including Notice of Annual General Meeting to the shareholders) To be circulated to the debenture holders 	15 working days prior to 29 March 2018 Mid-March 2018
31st Annual General Meeting (AGM)	Scheduled to be held at the Samudra Ballroom, Taj Samudra Hotel, Colombo 3	On Thursday, 29 March 2018
First and final ordinary dividend for the year ended 31 December 2017	Payable subject to the approval of the shareholders at the AGM	On or before 10 April 2018
Interim (unaudited or audited) Financial Statements	Statements in respect of the four quarters of 2018 will be released/published as per the Listing Rules of the Colombo Stock Exchange	

Statement of Directors' Responsibility for Financial Reporting

The Statement of Responsibility of the Directors of Seylan Bank PLC ("Bank") in relation to the Financial Statements of the Bank and the Consolidated Financial Statements of the Group is set out in this Report in terms of the provisions of the Companies Act No. 07 of 2007 ("the Act").

The Directors of the Bank ensure that the Bank maintains proper books of account of all its transactions so as to enable the financial position of the Bank to be determined with reasonable accuracy at any time; enable the preparation of Financial Statements of the Bank in accordance with the Act; and enable the Financial Statements of the Bank to be readily and properly audited.

Confirmation of Directors' responsibility

The Directors of Seylan Bank PLC confirm that to the best of their knowledge –

- the Financial Statements prepared and published on pages 207 to 296 of this Annual Report in terms of Sections 150 (1), 151 (1), 152 (1) and 153 (1) of the Companies Act, give a true and fair view of the state of affairs of the Bank and the Group and the profit or loss for the year ended 31 December 2017;
- the Financial Statements for the year ended 31 December 2017 presented in this Annual Report are consistent with the underlying books of account of the Bank and are in conformity with the Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 (as amended), Directions and Guidelines of the Central Bank of Sri Lanka, the Listing Rules of the Colombo Stock Exchange, and the Code of Best Practice on Corporate Governance (2013)

issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka);

- in preparing the Financial Statements for the year ended 31 December 2017 appropriate accounting policies have been selected and applied on a consistent basis with material departures if any disclosed in the Financial Statements together with the rationale for same;
- proper books of account have been maintained and have also taken reasonable steps to ensure the accuracy and reliability of accounting records.

The Directors further confirm that –

- the financial reporting system was reviewed by the Board through the management accounts submitted monthly at Board meetings. The Bank's Interim and Audited Financial Statements were also reviewed by the Board Audit Committee and the Board prior to the said statements being released and published.
- the Financial Statements of the Bank and the Group have been certified by the Bank's Chief Financial Officer and the Chief Executive Officer, the persons responsible for their preparation and signed by two Directors of the Bank on 16 February 2018.

External Auditors' reviews and opinions

The Bank's Auditors, Messrs KPMG was engaged to carry out reviews and sample checks on the effectiveness of the systems of internal control as they consider appropriate and necessary in providing their opinion on the Financial Statements. Messrs KPMG have examined the Financial Statements made available together with all other financial records,

minutes of meetings of the Board and the Board subcommittees and related information and have expressed their opinion which appears on page 206 of this Annual Report.

Internal control mechanism over financial reporting

The Board is also responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Bank's assets and ensure continuity of operations. To this end, the Board has identified principal risks and implemented a system to continually assess such risks and established an appropriate control environment for ensuring proper monitoring of effectiveness of internal controls and correction of deficiencies.

The Board's statement on the effectiveness of Bank's internal control mechanism over financial reporting, prepared in accordance with the Guidelines issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 (as amended) is published on pages 68 to 69 and Bank's Independent Auditors' Report on our assessment of Bank's internal controls over financial reporting is published on page 70 of this Annual Report.

Solvency

The Board of Directors confirm that they have authorised the distribution of the proposed dividend having been satisfied that the Bank would meet the solvency test in terms of the provisions of the Companies Act No. 07 of 2007 immediately after the dividend payment. The Board has obtained a statement of solvency from the External Auditors in relation to the proposed dividend payment.

The Directors confirm that to the best of their knowledge and belief,

all statutory payments due and payable to all statutory and regulatory authorities as at the reporting date, have been paid by the Bank and its subsidiaries or where relevant provided for.

Going concern

The Directors further confirm that having considered the financial position, operating conditions, regulatory and other factors and such other matters required to be addressed in the Corporate Governance Code, the Bank and the Subsidiary, Seylan Developments PLC have adequate resources to continue the operations of the Bank and the Group in the foreseeable future. The Financial Statements of the Bank and the Group have accordingly been prepared on a going concern basis.

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

By Order of the Board of Directors



(Mrs) N N Najumudeen
Company Secretary

16 February 2018

Colombo

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements of Seylan Bank and the Group are prepared in compliance with the requirements of the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The Board of Directors and Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in true and fair manner, the form and substance of transactions and reasonably present the Company's state of affairs. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal controls and accounting records, for safeguarding assets

and for preventing and detecting frauds as well as other irregularities, which are reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements of the Bank and the Group were audited by Messrs KPMG, Chartered Accountants, and their report on page 206 of this Annual Report. The Audit Committee of the Bank meets periodically with the Internal Auditors and the External Auditors to review the manner in which these Auditors are performing their responsibilities and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

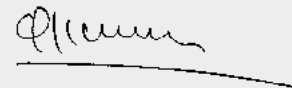
The Audit Committee pre-approves the audit and non-audit services provided by Messrs KPMG in order to ensure that the provision of such services does not impair Messrs KPMG's independence.

It is also declared and confirmed that the Bank has complied with and ensured compliance by the Auditors with the guidelines for the audit of listed companies where mandatory compliance is required it is further confirmed that all the other guidelines have been complied with.

We confirm that the Bank and its Subsidiary have complied with all applicable laws, regulations and guidelines and there are no material litigations against the Group, other than those disclosed in Note 46 of the Financial Statements in this Annual Report.



Kapila Ariyaratne
Director/Chief Executive Officer



Ms. Champika Dodanwela
Chief Financial Officer

16 February 2018

Independent Auditors' Report



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(Chartered Accountants)
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To the Shareholders of Seylan Bank PLC Report on the Financial Statements

We have audited the accompanying financial statements of Seylan Bank PLC ("the Company"), and the consolidated financial statements of the Company and its subsidiary ("Group"), which comprise the statement of financial position as at 31 December 2017, and the statements of income, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 207 to 296 of the annual report.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards

require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017,

and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above
- b) In our opinion:
 - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
 - The financial statements of the Company give a true and fair view of its financial position as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

Chartered Accountants

Colombo

16 February 2018

Income Statement

For the year ended 31 December	Note	Bank			Group		
		2017 LKR '000	2016 LKR '000	Change %	2017 LKR '000	2016 LKR '000	Change %
Gross Income	6	49,338,298	37,872,893	30.27	49,873,378	37,912,779	31.55
Interest income		43,725,934	33,457,232	30.69	43,731,971	33,472,831	30.65
Less: Interest expenses		28,234,801	19,990,485	41.24	28,156,971	19,973,758	40.97
Net interest income	7	15,491,133	13,466,747	15.03	15,575,000	13,499,073	15.38
Fee and commission income		3,952,760	3,223,231	22.63	3,952,557	3,222,864	22.64
Less: Fee and commission expenses		164,619	119,983	37.20	170,553	125,626	35.76
Net fee and commission income	8	3,788,141	3,103,248	22.07	3,782,004	3,097,238	22.11
Net trading income	9	(212,772)	(227,770)	6.58	(213,964)	(229,366)	6.72
Net gain on financial investments	10	358,636	11,895	2,915.01	358,636	11,895	2,915.01
Other operating income (net)	11	1,513,740	1,408,305	7.49	2,044,178	1,434,555	42.50
Total operating income		20,938,878	17,762,425	17.88	21,545,854	17,813,395	20.95
Net impairment loss	12	1,504,696	954,187	57.69	1,504,696	954,371	57.66
Net operating income		19,434,182	16,808,238	15.62	20,041,158	16,859,024	18.87
Less: Operating expenses	13						
Personnel expenses	14	5,195,863	4,610,073	12.71	5,228,790	4,642,048	12.64
Premises, equipment and establishment expenses		2,404,157	2,204,411	9.06	2,345,604	2,168,619	8.16
Other expenses		3,282,505	2,910,671	12.77	3,296,868	2,934,229	12.36
Operating expenses		10,882,525	9,725,155	11.90	10,871,262	9,744,896	11.56
Operating profit before taxes		8,551,657	7,083,083	20.73	9,169,896	7,114,128	28.90
Value added tax and nation building tax on financial services		1,895,206	1,349,365	40.45	1,884,973	1,342,883	40.37
Operating profit before income tax		6,656,451	5,733,718	16.09	7,284,923	5,771,245	26.23
Income tax expense	15	2,226,053	1,723,268	29.18	2,281,292	1,736,355	31.38
Profit for the year		4,430,398	4,010,450	10.47	5,003,631	4,034,890	24.01
Profit attributable to:							
Equity holders of the Bank		4,430,398	4,010,450	10.47	4,816,834	4,013,132	20.03
Non-controlling interest		-	-	-	186,797	21,758	758.52
Profit for the year		4,430,398	4,010,450	10.47	5,003,631	4,034,890	24.01
Basic/diluted earnings per share (LKR)	16	12.58	11.39	10.47	13.68	11.40	20.03

Notes on pages 217 to 296 form an integral part of these Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December	Note	Bank			Group		
		2017 LKR '000	2016 LKR '000	Change %	2017 LKR '000	2016 LKR '000	Change %
Profit for the year		4,430,398	4,010,450	10.47	5,003,631	4,034,890	24.01
Other comprehensive income, net of tax							
Items that will never be reclassified to profit or loss							
Revaluation of property, plant and equipment	44.2	-	822,999	(100.00)	(20,329)	840,448	(102.42)
Deferred tax on revaluation surplus of land	33,44.2	(231,989)	-	-	(231,989)	-	-
Actuarial gain on defined benefit obligations	41.1.7	28,182	54,555	(48.34)	27,312	55,052	(50.39)
Items that are or may be reclassified to profit or loss							
Net gain/(loss) on remeasuring available-for-sale financial assets	44.4	2,636,992	(1,222,758)	315.66	2,639,217	(1,223,367)	315.73
Net movement of cash flow hedge reserve	22.2.1	(7,366)	-	-	(7,366)	-	-
Other comprehensive income for the year, net of tax		2,425,819	(345,204)	802.72	2,406,845	(327,867)	834.09
Total comprehensive income for the year		6,856,217	3,665,246	87.06	7,410,476	3,707,023	99.90
Total comprehensive income attributable to:							
Equity holders of the Bank		6,856,217	3,665,246	87.06	7,229,275	3,680,154	96.44
Non-controlling interest		-	-	-	181,201	26,869	574.39
Total comprehensive income for the year		6,856,217	3,665,246	87.06	7,410,476	3,707,023	99.90

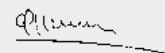
Notes on pages 217 to 296 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	Bank			Group		
		2017 LKR '000	2016 LKR '000	Change %	2017 LKR '000	2016 LKR '000	Change %
Assets							
Cash and cash equivalents	19	8,319,384	8,336,143	(0.20)	8,319,424	8,336,193	(0.20)
Balances with Central Bank of Sri Lanka	20	19,119,843	16,211,618	17.94	19,119,843	16,211,618	17.94
Placements with banks and finance companies	21	1,455,115	334,230	335.36	1,455,115	334,230	335.36
Derivative financial instruments	22	60,165	115,707	(48.00)	60,165	115,707	(48.00)
Other financial assets – held for trading	23	7,939,213	9,060,416	(12.37)	7,944,562	9,066,980	(12.38)
Securities purchased under resale agreements		1,750,855	7,317,022	(76.07)	1,750,855	7,317,022	(76.07)
Customer loans and receivables	24	280,861,907	236,020,197	19.00	280,861,907	236,020,197	19.00
Financial investments – available for sale	25	53,507,037	45,863,945	16.66	53,507,037	45,900,746	16.57
Financial investments – held to maturity	26	21,529,778	18,412,060	16.93	21,529,778	18,479,155	16.51
Investment in subsidiary	27	1,153,602	1,153,602	-	-	-	-
Group balances receivable	28	30,000	30,102	(0.34)	-	-	-
Property, plant and equipment	29	3,495,140	4,329,522	(19.27)	6,001,586	5,971,693	0.50
Leasehold rights	30	40,425	42,370	(4.59)	581,346	590,701	(1.58)
Investment properties	31	-	-	-	851,667	854,078	(0.28)
Intangible assets	32	363,451	262,112	38.66	363,451	262,112	38.66
Assets held for sale	34	900,543	-	-	-	226,827	(100.00)
Other assets	35	7,599,381	8,523,510	(10.84)	7,637,019	8,562,182	(10.81)
Total assets		408,125,839	356,012,556	14.64	409,983,755	358,249,441	14.44
Liabilities							
Due to banks	36	27,052,972	17,728,293	52.60	27,052,972	17,728,293	52.60
Derivative financial instruments	22	571,557	86,654	559.59	571,557	86,654	559.59
Customer deposits	37	307,098,902	273,456,344	12.30	307,098,902	273,456,344	12.30
Securities sold under repurchase agreements		16,631,973	15,976,518	4.10	16,631,973	15,976,518	4.10
Other borrowings	38	22,396	21,249	5.40	22,396	21,249	5.40
Group balances payable	39	1,145,110	226,351	405.90	-	-	-
Debentures	40	12,494,025	12,493,645	-	12,494,025	12,493,645	-
Current tax liabilities		1,022,378	750,385	36.25	1,046,249	757,467	38.12
Deferred tax liabilities	33	1,359,044	11,874	11,345.54	1,431,294	70,959	1,917.07
Other liabilities	41	6,521,559	7,488,961	(12.92)	6,593,748	7,572,848	(12.93)
Total liabilities		373,919,916	328,240,274	13.92	372,943,116	328,163,977	13.65
Equity							
Stated capital	42	11,228,269	10,529,724	6.63	11,228,269	10,529,724	6.63
Statutory reserve fund	43	1,609,484	1,387,964	15.96	1,609,484	1,387,964	15.96
Retained earnings		17,178,024	14,050,233	22.26	17,818,539	14,304,925	24.56
Other reserves	44	4,190,146	1,804,361	132.22	5,170,681	2,797,661	84.82
Total equity attributable to equity holders of the Bank		34,205,923	27,772,282	23.17	35,826,973	29,020,274	23.45
Non-controlling interest	27.2	-	-	-	1,213,666	1,065,190	13.94
Total equity		34,205,923	27,772,282	23.17	37,040,639	30,085,464	23.12
Total liabilities and equity		408,125,839	356,012,556	14.64	409,983,755	358,249,441	14.44
Commitments and contingencies	45	99,500,731	64,110,695	55.20	99,568,595	64,184,994	55.13
Net assets value per share (LKR)		96.50	80.51	19.86	101.08	84.13	20.15

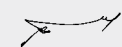
Notes on pages 217 to 296 form an integral part of these Financial Statements.

The Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



Ms. Champika Dodanwela
Chief Financial Officer

Approved and signed for and on behalf of the Board.



W M R S Dias
Chairman

16 February 2018
Colombo



Kapila Ariyaratne
Director/Chief Executive Officer

Statement of Changes in Equity

Bank				
<i>For the Year ended 31 December</i>				
	Note	Stated capital		
		Ordinary shares – voting LKR '000	Ordinary shares – non-voting LKR '000	
(1) Balance as at 1 January 2016		6,962,722	3,567,002	
Total comprehensive income for the year				
Profit for the year		-	-	
Other comprehensive income (net of tax)				
– Revaluation of property, plant and equipment	44.2	-	-	
– Actuarial gain on defined benefit obligations	41.1.5	-	-	
– Net loss on remeasuring available-for-sale financial assets	44.4	-	-	
(2) Total comprehensive income for the year		-	-	
Transactions with equity holders, recognised directly in equity				
Dividends to equity holders	17	-	-	
Transferred to statutory reserve fund*	43	-	-	
Transferred from investment fund reserve	44.5	-	-	
(3) Total transactions with equity holders		-	-	
Balance as at 31 December 2016 (1 + 2 + 3)		6,962,722	3,567,002	
(1) Balance as at 1 January 2017		6,962,722	3,567,002	
Total comprehensive income for the year				
Profit for the year		-	-	
Other comprehensive income (net of tax)				
– Deferred tax on revaluation surplus of land**	33, 44.2	-	-	
– Actuarial gain on defined benefit obligations	41.1.5	-	-	
– Net gain on remeasuring available-for-sale financial assets	44.4	-	-	
– Net movement of cash flow hedge reserve	22.2.1	-	-	
(2) Total comprehensive income for the year		-	-	
Transactions with equity holders, recognised directly in equity				
Cash/scrip dividends to equity holders	17	356,354	342,191	
Transferred to statutory reserve fund*	43	-	-	
Transferred from investment fund reserve	44.5	-	-	
(3) Total transactions with equity holders		356,354	342,191	
Balance as at 31 December 2017 (1+2+3)		7,319,076	3,909,193	

Statutory reserve fund*	Retained earnings	Other reserves			Total
		Revaluation reserve	Available-for- sale reserve	Others	
		LKR '000	LKR '000	LKR '000	
1,187,441	11,125,666	651,483	(468,826)	2,030,189	25,055,677
-	4,010,450	-	-	-	4,010,450
-	-	822,999	-	-	822,999
-	54,555	-	-	-	54,555
-	-	-	(1,222,758)	-	(1,222,758)
-	4,065,005	822,999	(1,222,758)	-	3,665,246
-	(948,641)	-	-	-	(948,641)
200,523	(200,523)	-	-	-	-
-	8,726	-	-	(8,726)	-
200,523	(1,140,438)	-	-	(8,726)	(948,641)
1,387,964	14,050,233	1,474,482	(1,691,584)	2,021,463	27,772,282
1,387,964	14,050,233	1,474,482	(1,691,584)	2,021,463	27,772,282
-	4,430,398	-	-	-	4,430,398
-	-	(231,989)	-	-	(231,989)
-	28,182	-	-	-	28,182
-	-	-	2,636,992	-	2,636,992
-	-	-	-	(7,366)	(7,366)
-	4,458,580	(231,989)	2,636,992	(7,366)	6,856,217
-	(1,121,121)	-	-	-	(422,576)
221,520	(221,520)	-	-	-	-
-	11,852	-	-	(11,852)	-
221,520	(1,330,789)	-	-	(11,852)	(422,576)
1,609,484	17,178,024	1,242,493	945,408	2,002,245	34,205,923

* Statutory reserve fund represents the statutory requirement in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988 (5% of net profit after tax).

**The Bank has considered the land as capital assets in terms of requirements of Inland Revenue Act No. 24 of 2017 which is effective from 1 April 2018. Accordingly, the deferred tax liability has been recognised on the revaluation surplus since it will be subject to income tax at the rate of 28% at the point of disposal.

Notes on pages 217 to 296 form an integral part of these Financial Statements.

Group					
<i>For the Year ended 31 December</i>					
		Stated capital		Statutory reserve fund*	Retained earnings
	Note	Ordinary shares-voting LKR '000	Ordinary shares-non-voting LKR '000	LKR '000	LKR '000
(1) Balance as at 1 January 2016		6,962,722	3,567,002	1,187,441	11,376,269
Total comprehensive income for the year					
Profit for the year		-	-	-	4,013,132
Other comprehensive income (net of tax)					
- Revaluation of property, plant and equipment	44.2	-	-	-	-
- Reversal of revaluation surplus on property, plant and equipment written off	44.2	-	-	-	35
- Actuarial gain on defined benefit obligations	41.1.5	-	-	-	54,906
- Net loss on remeasuring available-for-sale financial assets	44.4	-	-	-	-
(2) Total comprehensive income for the year		-	-	-	4,068,073
Transactions with equity holders, recognised directly in equity					
Dividends	17	-	-	-	(948,641)
Transferred to statutory reserve fund*	43	-	-	200,523	(200,523)
Transferred from investment fund reserve	44.5	-	-	-	8,726
Changes in ownership interest in subsidiary					
Acquisition of non-controlling interest without change in control		-	-	-	1,021
(3) Total transactions with equity holders		-	-	200,523	(1,139,417)
Balance as at 31 December 2016 (1+2+3)		6,962,722	3,567,002	1,387,964	14,304,925
(1) Balance as at 1 January 2017		6,962,722	3,567,002	1,387,964	14,304,925
Total comprehensive income for the year					
Profit for the year		-	-	-	4,816,834
Other comprehensive income (net of tax)					
- Revaluation of property, plant and equipment	44.2	-	-	-	-
- Deferred tax on revaluation surplus of land**	33, 44.2	-	-	-	-
- Actuarial gain on defined benefit obligations	41.1.5	-	-	-	27,569
- Net gain on remeasuring available-for-sale financial assets	44.4	-	-	-	-
- Net movement of cash flow hedge reserve	22.2.1	-	-	-	-
(2) Total comprehensive income for the year		-	-	-	4,844,403
Transactions with equity holders, recognised directly in equity					
Cash/scrip dividends	17	356,354	342,191	-	(1,121,121)
Transferred to statutory reserve fund*	43	-	-	221,520	(221,520)
Transferred from investment fund reserve	44.5	-	-	-	11,852
(3) Total transactions with equity holders		356,354	342,191	221,520	(1,330,789)
Balance as at 31 December 2017 (1+2+3)		7,319,076	3,909,193	1,609,484	17,818,539

	Other reserves			Total	Non-controlling interest	Total equity
	Revaluation reserve	Available-for-sale reserve	Others			
	LKR '000	LKR '000	LKR '000			
	1,378,783	(469,879)	2,285,402	26,287,740	1,067,194	27,354,934
	-	-	-	4,013,132	21,758	4,034,890
	835,317	-	-	835,317	5,131	840,448
	(50)	-	-	(15)	15	-
	-	-	-	54,906	146	55,052
	-	(1,223,186)	-	(1,223,186)	(181)	(1,223,367)
	835,267	(1,223,186)	-	3,680,154	26,869	3,707,023
	-	-	-	(948,641)	(26,179)	(974,820)
	-	-	-	-	-	-
	-	-	(8,726)	-	-	-
	-	-	-	1,021	(2,694)	(1,673)
	-	-	(8,726)	(947,620)	(28,873)	(976,493)
	2,214,050	(1,693,065)	2,276,676	29,020,274	1,065,190	30,085,464
	2,214,050	(1,693,065)	2,276,676	29,020,274	1,065,190	30,085,464
	-	-	-	4,816,834	186,797	5,003,631
	(14,334)	-	-	(14,334)	(5,995)	(20,329)
	(231,989)	-	-	(231,989)	-	(231,989)
	-	-	-	27,569	(257)	27,312
	-	2,638,561	-	2,638,561	656	2,639,217
	-	-	(7,366)	(7,366)	-	(7,366)
	(246,323)	2,638,561	(7,366)	7,229,275	181,201	7,410,476
	-	-	-	(422,576)	(32,725)	(455,301)
	-	-	-	-	-	-
	-	-	(11,852)	-	-	-
	-	-	(11,852)	(422,576)	(32,725)	(455,301)
	1,967,727	945,496	2,257,458	35,826,973	1,213,666	37,040,639

* Statutory reserve fund represents the statutory requirement in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988 (5% of net profit after tax).

**The Bank has considered the land as capital assets in terms of requirements of Inland Revenue Act No. 24 of 2017 which is effective from 1 April 2018. Accordingly, the deferred tax liability has been recognised on the revaluation surplus since it will be subject to income tax at the rate of 28% at the point of disposal.

Notes on pages 217 to 296 form an integral part of these Financial Statements.

Cash Flow Statement

For the Year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Cash flows from operating activities				
Interest receipts	42,302,083	31,128,413	42,308,120	31,142,336
Fees and commission receipts	3,952,760	3,223,231	3,952,557	3,222,864
Interest payments	(26,385,903)	(17,405,026)	(26,308,073)	(17,388,299)
Trading income	20,309	(62,541)	20,309	(62,541)
Receipts from other operating activities	2,346,937	1,409,056	2,427,052	1,491,645
Cash payments to employees and suppliers	(11,650,905)	(10,463,660)	(11,624,867)	(10,448,905)
Cash payments for other operating activities	(164,619)	(119,983)	(170,553)	(125,626)
Operating profit before changes in operating assets and liabilities [Note (a)]	10,420,662	7,709,490	10,604,545	7,831,474
(Increase)/decrease in operating assets:				
Loans and receivables to customers	(45,762,794)	(43,062,023)	(45,762,794)	(43,062,023)
Deposits held for regulatory or monetary control purposes	(2,908,225)	(7,647,730)	(2,908,225)	(7,647,730)
Increase/(decrease) in operating liabilities:				
Deposits from customers	32,495,066	46,515,044	32,495,066	46,515,044
Certificates of deposit from customers	(629,747)	180,911	(629,747)	180,911
Cash (used in)/generated from operations	(6,385,038)	3,695,692	(6,201,155)	3,817,676
Income tax paid	(1,039,353)	(976,036)	(1,051,018)	(976,036)
Contribution paid into employees retirement benefit plan/ to employees	(156,808)	(138,527)	(156,808)	(138,527)
Net cash (used in)/generated from operating activities	(7,581,199)	2,581,129	(7,408,981)	2,703,113
Cash flows from investing activities				
Investment in subsidiary company	-	(1,673)	-	-
Dividend income received	113,994	97,715	43,570	41,376
Net proceeds from sale, maturity and purchase of financial investments of Government of Sri Lanka Treasury Bills/Bonds and Development Bonds maturing after three months	(9,321,771)	134,783	(9,321,771)	134,783
Reverse repurchase agreements maturing after three months	(7,209)	-	(7,209)	-
Net proceeds from sale, maturity and purchase of financial investments of shares and debentures	938,396	756,550	1,042,315	773,054
Purchase of property, plant and equipment and intangible assets	(861,584)	(850,209)	(884,211)	(851,674)
Proceeds from sale of property, plant and equipment	13,311	38,066	13,405	38,066
Proceeds from sale of assets held for sale	-	-	748,164	-
Improvements to investment properties	-	-	(7,538)	(360)
Net cash (used in)/generated from investing activities	(9,124,863)	175,232	(8,373,275)	135,245
Cash flows from financing activities				
Debentures issued	-	5,000,000	-	5,000,000
Securities sold under repurchase agreements	665,351	4,552,673	665,351	4,552,673
Increase/(decrease) in other borrowings	9,962,716	(2,780,901)	9,076,828	(2,832,866)
Dividends paid – ordinary shares	(1,125,247)	(933,132)	(1,163,175)	(963,164)
Net cash generated from financing activities	9,502,820	5,838,640	8,579,004	5,756,643
Net increase/(decrease) in cash and cash equivalents	(7,203,242)	8,595,001	(7,203,252)	8,595,001
Cash and cash equivalents at beginning of the year	23,277,093	14,682,092	23,277,143	14,682,142
Cash and cash equivalents at end of the year	16,073,851	23,277,093	16,073,891	23,277,143
Reconciliation of cash and cash equivalents				
Cash and cash equivalents (Note 19)	8,319,384	8,336,143	8,319,424	8,336,193
Placements with banks and finance companies (Note 21)	1,455,115	334,230	1,455,115	334,230
Government of Sri Lanka Treasury Bills/Bonds and Development Bonds maturing within three months	4,555,706	7,289,698	4,555,706	7,289,698
Securities purchased under resale agreements maturing within three months	1,743,646	7,317,022	1,743,646	7,317,022
	16,073,851	23,277,093	16,073,891	23,277,143

Note (a) Reconciliation of operating profit before changes in operating assets and liabilities

<i>For the Year ended 31 December</i>	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Operating profit before income tax	6,656,451	5,733,718	7,284,923	5,771,245
Accrual for interest income	(758,815)	(1,838,392)	(758,815)	(1,840,068)
Notional tax credit on Government Securities	(665,036)	(490,427)	(665,036)	(490,427)
Accrual for interest expenses	1,848,898	2,585,459	1,848,898	2,585,459
Fair value adjustment on derivative instruments	533,079	50,988	533,079	50,988
Straightlining of operating leases	46,409	29,056	46,409	29,056
Loss on revaluation of foreign exchange	652,335	127,728	652,925	127,728
Dividend income	(113,994)	(97,715)	(43,570)	(41,376)
Loss on sale of dealing securities	–	340	–	340
(Gain)/loss on marked to market valuation on Government of Sri Lanka Treasury Bills/Bonds	(300,219)	113,921	(300,219)	113,921
(Gain)/loss on marked to market valuation on quoted equities	222	(20)	1,414	1,576
Profit from sale of property, plant and equipment	(12,976)	(29,262)	(12,976)	(29,262)
Profit from sale of assets held for sale	–	–	(521,337)	–
Depreciation of freehold property, plant and equipment	601,313	518,563	631,677	547,194
Depreciation of leasehold rights	1,945	1,946	9,355	9,356
Depreciation of investment properties	–	–	9,949	9,382
Amortisation of intangible assets	92,436	76,234	92,436	76,234
Impairment for loans and receivable	1,495,825	974,433	1,495,825	974,433
Amortisation of prepaid staff cost	246,519	222,818	246,433	222,957
Accrual for VAT and NBT on financial services	126,715	(53,224)	126,715	(59,706)
Accrual for employee retirement benefit liability	30,764	48,335	30,304	48,007
Net impairment charge/(reversal) on financial investments	(41,933)	20,420	(41,933)	20,420
Accrual/(reversal) for leave encashment provision	67,884	(13,441)	67,884	(13,441)
Accrual for other expenses	(87,160)	(231,322)	(129,795)	(242,060)
Net reversal of impairment on property, plant and equipment	–	(40,666)	–	(40,482)
Operating profit before changes in operating assets and liabilities	10,420,662	7,709,490	10,604,545	7,831,474

Notes on pages 217 to 296 form an integral part of these Financial Statements.

Change in operating, investing and financing assets and liabilities increase/(decrease)

For the Year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Change in assets				
Operating assets				
Loans and receivables	45,762,794	43,062,023	45,762,794	43,062,023
Balances with Central Bank	2,908,225	7,647,730	2,908,225	7,647,730
Investing assets				
Sri Lanka Treasury Bills/Bonds and Development Bonds maturing after three months	9,321,771	(134,783)	9,321,771	(134,783)
Securities purchased under resale agreements maturing after three months	7,209	-	7,209	-
Investments in equities and debentures (net of disposal)	(938,396)	(756,550)	(1,042,315)	(773,054)
Other assets	(979,671)	1,753,742	(980,705)	1,775,162
Total	56,081,932	51,572,162	55,976,979	51,577,078
Change in liabilities				
Operating liabilities				
Deposits and certificates of deposit	31,865,319	46,695,955	31,865,319	46,695,955
Financing liabilities				
Debentures	-	5,000,000	-	5,000,000
Securities sold under repurchase agreements	665,351	4,552,673	665,351	4,552,673
Borrowings	9,325,826	(2,050,317)	9,325,826	(2,050,317)
Other liabilities	(482,499)	240,194	(494,197)	233,876
Total	41,373,997	54,438,505	41,362,299	54,432,187

Notes on pages 217 to 296 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. Reporting entity

Seylan Bank is a Licensed Commercial Bank (LCB) regulated under the Banking Act No. 30 of 1988 and amendments thereto, and listed on the Colombo Stock Exchange as a public limited liability company. The Bank was incorporated on 28 August 1987 and domiciled in Sri Lanka. The registered office of the Bank is situated at No. 90, Galle Road, Colombo 03. The shares of the Bank have a primary listing on the Colombo Stock Exchange (CSE).

The Consolidated Financial Statements comprises the Bank and its subsidiary (together referred to the Group).

The Bank does not have an identifiable parent of its own. The Bank is the ultimate parent of the Group.

The total number of employees of the Bank as at 31 December 2017 is 3,199 (2016 – 3,165).

1.1 Principal activities

The Bank

The principal activities of the Bank are banking and related activities such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease financing, rural credit, issuing of local and international credit cards, Tele banking facilities, Internet banking, dealing in Government Securities, etc.

Subsidiary

The subsidiary, Seylan Developments PLC, is in the business of development, administration and maintenance of property.

2. Basis of presentation of Financial Statements

2.1 Statement of compliance

The Financial Statements of the Bank and the Group have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/

LKASs) issued by The Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto and Listing Rules of CSE. The details of significant accounting policies are disclosed in Note 4.

2.2 Approval of Financial Statements by Directors

The Financial Statements were authorised for issue by the Board of Directors on 16 February 2018.

2.3 Basis of measurement

The Financial Statements have been prepared on the historical cost basis except for the following;

- Derivative financial instruments, Non-derivative financial instruments held for trading and financial assets classified as available for sale are measured at fair value.
- Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation and impairment losses.
- Non-current assets held for sale are measured at lower of carrying amount and fair value less cost to sell.
- Liability for defined benefit obligations is measured as the present value of the defined benefit obligation less the fair value of the plan assets.

2.4 Functional and presentation currency

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Bank's/Group's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

There was no change in the Bank's/Group's presentation and functional currency during the year under review.

2.5 Materiality and aggregation

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.

2.6 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to set-off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs/LKASs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

2.7 Comparative information

The comparative information is reclassified whenever necessary to conform with the current year's presentation in order to provide a better presentation.

3. Use of Estimates and Judgements

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRSs/LKASs) requires the Management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty, and critical judgements in applying accounting

policies that have the most significant effect on the amounts recognised in the Financial Statements are described in the following notes:

(i) Judgements

Determination of control over Employee Share Option Scheme and Share Trusts

The judgement applied by management over determination of control over Employee Share Option Scheme and Share Trusts is set out in Note 4.1.4.

(ii) Assumptions and estimation uncertainties

Going concern

The Management has made an assessment of the Bank'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, the Management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Income Statement. The Bank's impairment methodology for assets carried at amortised cost results in the recording of provisions for:

- Specific impairment losses on individually significant exposures;
- Collective impairment of individually not significant exposures.

All categories include an element of the Management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the change in of which can result in different levels of allowances.

Impairment of available-for-sale investments

The Bank reviews its investments classified as available for sale of each reporting date to assess whether they are impaired. The interpretation of what is "significant" or "prolonged" requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements, and the duration and extent to which the fair value of an investment is less than its cost.

Deferred tax assets

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

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements unless otherwise indicated.

The accounting policies have been applied consistently by the Group entities and there were no change in accounting policies for the year ended 31 December 2017.

4.1 Basis of consolidation

4.1.1 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 Group reassesses whether it has control if there are changes to one or more of the elements of control.

This includes circumstances in which protective rights held (eg. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The Financial Statements of the subsidiary are included in the Financial Statements from the date that control effectively commences until the date that control effectively ceases.

The accounting policies of the subsidiary have been changed when necessary to align them with the policies adopted by the Group. The Group Financial Statements comprise a consolidation of the Financial Statements of the Bank and its subsidiary incorporated in Sri Lanka, Seylan Developments PLC (70.51%).

The total profit/loss of the subsidiary is included in the Consolidated Income Statement, and the proportion of the profit or loss after taxation applicable to outside shareholders is shown under the heading "Non-Controlling Interest". All assets and liabilities of the Bank and its subsidiary are included in the Consolidated Statement of Financial Position. The interest of the outside shareholders in the net assets of the Group is stated separately in the Consolidated Statement of Financial Position within Equity under the heading "Non-Controlling Interest".

There are no significant restrictions on the ability of the subsidiary to transfer funds to the Bank in the form of cash dividends or repayment of loans and receivables.

4.1.2 Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. 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.

4.1.3 Transactions eliminated on consolidation

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in

preparing the Financial Statements. Unrealised gains arising from transactions with equity-accounted invitees are eliminated to the extent of the Group's interest in the invitee against the investment. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

4.1.4 Employee Share Option Schemes and Share Trusts

The Trusts are treated as external entities due to legal cases instituted and the uncertainties relating to the formation of the trusts and beneficial ownership. The legal status of these cases is disclosed in Note 46 to the Financial Statements. The impact of such treatment is not material to the Financial Statements.

4.1.5 Non-controlling interest

Non-controlling interest is measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

4.1.6 Non-uniform accounting policies

The impact of non-uniform accounting policies adopted by the subsidiary has been adjusted in the Consolidated Financial Statements and disclosed in Note 53.

4.2 Foreign currency translations and balances

Transactions in foreign currencies are translated to Sri Lankan Rupees at the middle rate of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Sri Lankan Rupees at the middle rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Sri Lankan Rupees at the exchange rates ruling at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Assets and liabilities and basis of valuation

4.3 Statutory Deposit with Central Bank

The Monetary Law Act requires that all commercial banks operating in Sri Lanka maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees.

4.4 Financial assets and financial liabilities

4.4.1 Recognition and initial measurement

The Group initially recognises loans and receivables, deposits, and debt securities issued on the date at which they are originated.

A financial asset or a financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Changes in fair value in financial assets/liabilities held at fair value through profit or loss are recognised in the Consolidated Income Statement while any changes in fair value for available-for-sale financial assets are recognised in the Statement of Other Comprehensive Income (OCI).

4.4.2 Classification

Financial assets

At inception a financial asset is classified in one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; or
- at fair value through profit or loss and within the category as:
 - held for trading; or
 - designated at fair value through profit or loss.

Financial liabilities

The Group initially recognises all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortised cost or fair value through profit or loss or designated at fair value through profit or loss.

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

A financial asset or a financial liability is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets and financial liabilities are designated as fair value through profit or loss when:

- The assets or liabilities are managed, evaluated, and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

The Group has not designated any financial asset/liability upon initial recognition at fair value through profit or loss as at the reporting date.

Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and receivables to customers include:

- Those classified as loans and receivables; and
- Finance lease receivables.

Loans and receivables classified as loans and receivables are initially measured at fair value plus incremental direct transaction costs,

and subsequently measured at their amortised cost using the effective interest method.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and receivables.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Available-for-sale financial assets

Available-for-sale investments are non-derivative investments that were designated as available for sale or are not classified as another category of financial assets. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in Other Comprehensive Income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in Other Comprehensive Income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Financial liabilities measured at amortised cost

Financial liabilities not classified as fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/time deposits, call deposits, certificates of deposits and debentures are classified as financial liabilities measured at amortised cost.

4.4.3 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

4.4.4 Fair value measurement

"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. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular

risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurements categories are not permitted following initial recognition.

Held for trading non-derivative financial assets are transferred out of the fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loans and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are transferred out of the available-for-sale category to the loans and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets are reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date

of reclassification is amortised to the Income Statement over the remaining life of the financial asset, using the effective interest method.

4.4.5 Derecognition

The Group derecognises financial asset when the contractual rights to the cash flows from the financial asset expires, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the Consolidated Statement of Financial Position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

4.4.6 Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for the Management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash

flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in Other Comprehensive Income to profit or loss as a reclassification adjustment. Impairment on available-for-sale portfolio would mean a significant (over 50% loss in value) or a prolonged (more than 12 consecutive months of market price reduction) loss in market value. In such an instance the Other Comprehensive Income loss would be immediately transferred to the Income Statement.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in Other Comprehensive Income.

The Group writes off certain loans and receivables and investment securities when they are determined to be uncollectible.

4.5 Securities purchased under resale agreements

These are loans collateralised by the purchase of Treasury Bills and/or Guaranteed Commercial Papers from the counterparty to whom the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

4.6 Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand and highly liquid financial assets with original maturities of three months or less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

4.7 Derivatives held for risk management purposes and hedge accounting

Derivatives are categorised as Held for trading unless they are designated as hedging instruments.

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

All derivatives are initially recognised and subsequently measured at fair value, with all fair value changes recognised in profit and loss. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. Currently, the Group has only cash flow hedging relationships.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in Other Comprehensive Income and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in Other Comprehensive Income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affected profit or loss, and in the same line item in the Statement of Profit or Loss and Other Comprehensive Income.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

4.8 Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

4.9 Intangible assets

4.9.1 Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

4.9.2 Subsequent Expenditure

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

4.9.3 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is as follows:

	Useful life (Years)
Seylan Bank PLC (Banking Software)	6
Seylan Developments PLC	5

4.10 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.

Investment property is recognised 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.

An investment property is measured initially at its cost. The cost of a purchased investment property comprises 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 completed. The Bank applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 – “Investment Property”. Accordingly, land classified as investment properties are stated at cost and buildings classified as investment properties are stated at cost, less any accumulated depreciation and any accumulated impairment losses. Fair values of these properties are disclosed in Note 31 to the Financial Statements. Seylan Developments PLC, the subsidiary of the Bank, applies the fair value model in accordance with the above standard. Accordingly, investment properties are stated at fair value and an external independent valuation company having an appropriate recognised professional qualification values the portfolio annually. Any gain or loss arising from a change in fair value is recognised in profit or loss. Adjustment for non-uniform accounting policy is reported in Note 53.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value are recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised in profit or loss immediately.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

When the Company begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured, based on fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the

Company holds it to earn rentals or for capital appreciation or both.

4.10.1 Derecognition

Investment properties are derecognised when disposed of, or permanently withdrawn from use because no future economic benefits are expected. Transfers are made to and from investment properties only when there is a change in use.

4.10.2 Investment property leased within the Group

Any property leased out to parent or subsidiary is considered as owner-occupied from the perspective of the Group and adjustments are made for consolidation purposes and changes are disclosed in Note 53 to the Financial Statements.

4.11 Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

4.11.1 Recognition and measurement

Items of property and equipment are measured at cost or revaluation, less accumulated depreciation and accumulated impairment losses except for land. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised net within other income in profit or loss.

4.11.2 Cost model

The Bank applies cost model to property, plant and equipment except for land and buildings and records at cost of purchase or construction together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

4.11.3 Revaluation model

The Bank applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land and buildings of the Bank are revalued within five years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Income. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Statement of Income or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Reclassification to investment property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in Other Comprehensive Income and presented in revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

4.11.4 Subsequent costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

4.11.5 Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in Statement of Income when the item is derecognised.

4.11.6 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term or their useful lives. Land is not depreciated.

Depreciation is provided on a straight-line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

	Useful life years	Rate %
Freehold buildings	40	2.5
Motor vehicles	5	20
Computer equipment	6	16.67
Office machine, equipment, furniture and fittings	3 – 10	33 1/3 – 10
Freehold buildings on leasehold lands	Remaining leased period or 40 years whichever is shorter	

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted appropriately.

The Bank does not require to reinstate fully depreciated assets as per the

guidelines issued by CA Sri Lanka on Reinstatement of Fully Depreciated Assets in the Statement of Financial Position, as those are neither critical nor a main revenue generating source.

Seylan Developments PLC

Property, plant and equipment are recorded at cost of purchase or valuation together with any incidental expenses thereon. The assets are stated at cost or valuation less accumulated depreciation which is provided for on the basis specified below.

Depreciation of common types of assets within the Group is in line with the Group policy disclosed above. Freehold land is not depreciated. The depreciation of other assets that are unique to Seylan Developments PLC is provided on the straight-line method at varying rates per annum based on their useful lives as follows:

	Useful life years	Depreciation rate %
Furniture and fittings	10	10
Office and other equipment	05	20
Tools	03	33.3

4.11.7 Capital work-in-progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation.

4.11.8 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard (LKAS) 23 – “Borrowing Costs”. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

Other borrowing costs are recognised as an expense.

4.11.9 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”.

Other leases are operating leases and are not recognised in the Group’s Statement of Financial Position.

4.12 Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

The recoverable amount of an asset or Cash-Generating Unit (CGU) is the greater of its value in use and its fair value less costs to sell. 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 or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU, subject to an operating segment ceiling test.

The Group’s corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

4.13 Inventories

Inventory mainly consists of stationery and *Tikiri* gifts. Bank’s policy for the accounting of inventory is as follows:

Stationery	: At weighted average cost method
<i>Tikiri</i> gift items:	At cost

4.14 Liabilities and provisions

4.14.1 Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group’s sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (“Repo”), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group’s Financial Statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.

4.14.2 Dividend payable

Provision for final dividend is recognised at the time the dividend is recommended and declared by the Board of Directors and is approved by the shareholders. Interim dividend payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 07 of 2007.

4.15 Employee retirement benefits

4.15.1 Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank operates an approved Gratuity Fund to facilitate the payments for permanent staff of the Bank.

The Bank’s net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on Government Bonds that have maturity dates approximating to the terms of the Bank’s obligations. The calculation is performed by a qualified actuary using the Projected Unit Credit Method – Sri Lanka Accounting Standard (LKAS) 19 – “Employee Benefits”.

Actuarial gains and losses occur when the actual plan experience differs from the assumed. The Bank recognises the total actuarial gains and losses that arise in calculating the Bank’s obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

When the calculations above result in a benefit to the Bank, the recognised asset is limited to the net total of any cumulative unrecognised actuarial losses and past service costs and the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Bank if it is realisable during the life of the plan or on settlement of the plan liabilities.

Monthly provision is made by the Bank for the Gratuity Fund, based on a percentage of the basic salary of employees. The percentage of contributions is determined by the same actuary and retirement benefits are provided to all permanent staff. The Bank carries out an actuarial valuation of the Gratuity Fund in December each year to ascertain the full liability of the Fund. The valuation method used by the actuary to value the Fund is the “Projected Unit Credit Method”, the method recommended by LKAS 19. The demographic assumptions underlying

the valuation are retirement age (57 years), early withdrawals from service and retirement on medical grounds, death before and after retirement, etc.

The Bank's retirement age of employees has been increased to 57 years in 2017 from 55 years. The revision in retirement age has been considered in estimating the provision for defined benefit obligations and leave encashment provision as changes in estimates.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

Changes to gratuity policy

Board of Directors of the Bank at its meeting held on 24 March 2009, decided to change the previous policy of gratuity payments of paying one month's salary (last drawn) to resigned staff members who have completed ten years of service in the Bank with effect from 5 March 2009.

The policy of paying half a month salary (last drawn) to resigned staff members who have completed five years of service in the Bank remains unchanged to be in line with the Government regulations.

Based on the Sri Lanka Accounting Standard (LKAS) 19 – "Employee Benefits" the subsidiary have adopted the Actuarial Valuation Method. Accordingly, provisions have been made based on the above method.

The gratuity liabilities are externally funded through plan assets of the Gratuity Trust Fund.

Other long-term employee benefits – (Termination Benefit-Leave Encashment)

The Bank's net obligation in respect of long-term employee benefits other than gratuity funds is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on Government Bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed using the Projected Unit Credit Method.

Any actuarial gains and losses are recognised in profit or loss in the period in which they arise. The

Bank's liability towards the portion of the accumulated leave which is expected to be utilised beyond one year from the end of the reporting period is treated as other long-term employee benefits.

Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term employee benefits

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 or profit-sharing plans 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.

4.15.2 Defined contribution plans

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as expense in the Statement of Income as and when they are due.

4.15.2 (a) Employees' Provident Fund

The Bank and employees contribute 12% and a minimum of 8% respectively on the salary of each employee to the approved private Provident Fund while the subsidiary and their employees contribute the same percentages to the Employees' Provident Fund.

4.15.2 (b) Employees' Trust Fund

The Bank contributes 3% of the salary of each employee to the Employees' Trust Fund. The total amount recognised as an expense to

the Bank for contribution to ETF is disclosed in the Note 14 to Financial Statements.

4.16 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

4.17 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

4.18 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, 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 recognised in the Statement of Financial Position but are disclosed unless they are remote.

Income Statement

4.19 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Income Statement include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;

Fair value changes on other derivatives held for risk management purposes, and all other financial assets and liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the Income Statement.

Interest income on available-for-sale investment securities calculated on an effective interest basis is also included in interest income.

4.20 Fee, commission and other income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received. Fee and commission expenses are recognised on a cash basis.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes.

Dividend income

Dividend income is recognised in the Statement of Income when the Bank's right to receive the dividend is established.

Usually, this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on equity instruments designated as at fair value through Other Comprehensive Income are presented in other revenue in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in Other Comprehensive Income. Further, dividends on available-for-sale equity securities are also presented in other revenue.

Accounting for finance lease income

Assets leased to customers to whom the Bank 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.

Gains/losses from sale of property, plant and equipment

Any gains or losses from sale of property, plant and equipment are recognised in the period in which the sale occurs and is classified as other income.

Gains/losses from sale of investment properties

Any gains or losses on retirement or disposal of investment properties are recognised in the month of retirement or disposal.

Rental income

Rental income is recognised on an accrual basis.

4.21 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised 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.

4.22 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity or in Other Comprehensive Income.

4.22.1 Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

4.22.2 Deferred tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Details of the deferred tax assets and liabilities as at the reporting date are given in Note 33 to the Financial Statements

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis.

Deferred tax impact of items that are categorised in OCI are also recognised in OCI.

The Bank recognised deferred tax liability for the revaluation surplus of land in accordance with the related tax provisions introduced by the

Inland Revenue Act No. 24 of 2017 by considering all the lands as capital assets. The total related deferred tax charge is recognised in the other comprehensive income of the current year.

4.22.3 Withholding tax on dividends

Dividend distributed out of taxable profit of the subsidiary attracts a 10% deduction at source and is not available for set-off against the tax liability of the Bank. Thus, the withholding tax deducted at source is recognised as income tax expense in the Consolidated Financial Statements.

Withholding tax that arises from the distribution of dividends by the Bank is recognised at the same time as the liability to pay the related dividend is recognised.

4.22.4 Value Added Tax and Nation Building Tax on financial services

The value base for Value Added Tax and Nation Building Tax for the Bank is the adjusted accounting profit before tax and emoluments of employees. The adjustment to the accounting profit before tax is for economic depreciation computed on prescribed rates instead of the rates adopted in the Financial Statements.

4.22.5 Economic Service Charges (ESC)

As per the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from 1 April 2004. Currently, the ESC is payable at 0.5% on "Liable Turnover" and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years.

4.22.6 Crop insurance levy

Section 14 of the Finance Act No. 12 of 2013 imposes a crop insurance levy on institutions under the purview of:

- Banking Act No. 30 of 1988.
- Finance Companies Act No. 78 of 1988.
- Regulation of Insurance Industry Act No. 43 of 2000.

Accordingly, Bank is required to pay 1% of the profit after tax for a year of assessment to the National Insurance Trust Fund with effect from 1 April 2013.

4.23 Earnings per share

The Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

4.24 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group comprises the following major operating segments – Banking, Treasury and Property/Investments.

4.25 Cash Flow Statement

The Cash Flow Statement has been prepared using the "Direct Method" of preparing cash flows in accordance with the LKAS 7 – "Statement of Cash Flows".

For the purpose of the Cash Flow Statement, cash and cash equivalents include notes and coins on hand and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their value, and are used by the Bank in the Management of its short-term commitments.

4.26 Deposit Insurance Scheme

In terms of the Banking Act Direction No. 5 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments thereto 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 32 A to 32 E of the Monetary Law Act with effect from 1 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 the 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.

Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceding financial year or a premium of 0.125% on eligible deposit liabilities for all other licensed commercial banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

4.27 Reserves

4.27.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988. Accordingly, the Bank should transfer a sum equivalent not less than 5% out of net profit after taxation but before any dividend is declared to the Statutory Reserve Fund until the Statutory Reserve Fund is equal to 50% of the paid-up capital.

4.27.2 Capital Reserve

This reserve has been created in 1991 and the Debenture Redemption Reserve Fund was transferred to Capital Reserve in 2004.

4.27.3 Revaluation reserve

This reserve has been created on revaluation of Land and Buildings of the Bank.

4.27.4 General reserve

Consist of LKR 25 Mn. transferred in 1995 to General Reserve, LKR 2.7 Mn. transferred from bad debts reserve and LKR 6 Mn. transferred from Contingency Reserve in 2002 to General Reserve.

4.27.5 Investment fund reserve

As per the Value Added Tax (Amendment) Act No. 09 of 2011 and Inland Revenue (Amendment) Act No. 22 of 2011, Bank transferred 8% on value addition attributable to financial services and 5% of taxable profits, from retained profits to Investment Fund Reserve with effect from 1 January 2011.

Operations of the investment fund account ceased with effect from 1 October 2014. With effect from 1 July 2014 guidelines on the operations of investment fund account shall not be applicable for the utilisation of capital funds recovered through loan repayments and maturity precedes of long-term Government Securities. Hence the bank is required to reduce the value of the fund by an amount equivalent to capital funds recovered with effect from 1 July 2014.

4.27.6 Available-for-sale reserve

This has been created in 2012 to account the fair value changes on account of Available-for-Sale Investments.

4.27.7 Cash flow hedge reserve

This has been created to account fair value changes of designated hedging instruments under cash flow hedges.

4.28 Events occurring after the reporting date

Events occurring after the reporting date are those events, favourable and unfavourable, that occur between the reporting date and the date the Financial Statements are authorised for issue.

All material and important events which occur after the reporting date have been considered and disclosed in Note 49 to the Financial Statements or adjusted as applicable.

4.29 Accounting standards issued but not yet adopted

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards (SLFRSs/LKASs) which will become applicable for financial periods beginning after 1 January 2018. Accordingly, the Group has not applied the following new standards in preparing these Consolidated Financial Statements.

4.29.1 SLFRS 09 – Financial Instruments

SLFRS 09, issued in July 2014, is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces LKAS 39 – “Financial Instruments: Recognition and Measurement”.

The Group will apply SLFRS 9 as issued in July 2014 with effect from 1 January 2018 based on the transitional provisions.

The Bank has assessed the impact on transition based on gap analysis and quantifications performed on its Financial Statements as at 31 December 2016 on adoption of SLFRS 9 with the assistance of an external consultant.

The Bank is now in the process of testing and refining the data and models used for the calculation of initial impact assessment.

SLFRS 9 include three major sections, i.e.

- Classification and measurement of financial assets and financial liabilities
- Impairment of financial assets
- Hedge accounting

The summary of the impact to the Bank is presented in the table below:

Area	LKAS 39 requirement	SLFRS 9 requirement	Impact to the Bank
Financial asset classification and measurement	Four categories (HTM, L&R, FVTPL and AFS) Classification is based on ability and intention to hold and the marketability of the instrument	Three categories (Amortised cost, FV through profit or loss and FV through OCI) Classification is based on characteristics of financial instruments and the business model of the portfolio	No significant impact If equity instrument is classified as FV through OCI, no fair value gain/loss is recognised in profit or loss
Financial liabilities	Two categories – FV through profit or loss and amortised cost	Two categories – FV through profit or loss and amortised cost	No change
Impairment	Incurred loss approach	Expected loss approach	1. Provisions for all claims including SLDB and corporate debentures 2. Life time ECL for watch list (30-90days outstanding category) 3. Provisions for undrawn and unutilised exposures 4. Incorporation of forward looking information/ macroeconomic factors
Hedge accounting	The result of retrospective effectiveness should be within the range of 80-125%	Elimination of the 80-125% qualitative threshold for recognising effectiveness	No impact to the Bank's presently designated hedge relationship

4.29.1.1 Classification and measurements

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI (Fair Value through Other Comprehensive Income) and FVTPL (Fair Value Through Profit or Loss). It eliminates the existing LKAS 39 categories of held for trading, held to maturity, loans and receivables and available for sale.

All equity instruments should be fair valued either through profit or loss or OCI. Fair value through Other Comprehensive Income (OCI) is an irrecoverable option without recycling (i.e. the amount recognised in OCI/Reserves cannot be transferred to P&L at the time of disposal).

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- Trading assets and derivative assets held for risk management, which are classified as held for trading and measured at FVTPL under LKAS 39, will also be measured at FVTPL under SLFRS 9.
- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under LKAS 39 will in general also

be measured at amortised cost under SLFRS 9.

- Held-to-maturity investment securities measured at amortised cost under LKAS 39 will in general also be measured at amortised cost under SLFRS 9.
- Debt investment securities that are classified as available for sale under LKAS 39 may, under SLFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.
- The equity investment securities that are classified as available for sale under LKAS 39 will be designated as FVOCI on 1 January 2018.

The Bank has reviewed the loan agreements and the objectives of assets portfolios to evaluate whether any of the condition triggers change in the classifications. However, the Bank has not identified any significant changes to the Bank present measurement rules based on impact analysis performed.

SLFRS 9 does not change the measurement rules of financial liabilities.

4.29.1.2 Impairment

SLFRS 9 brings out the concept of expected loss against the incurred loss principle used in LKAS 39.

Accordingly,

- a. Life Time Expected Credit Loss (ECL) to be provided for all loans. However, if loans credit risk has not increased significantly from the grant date, the expected loss should be restricted only to 12 months period.

- b. The provision should be based on Exposure At Default (EAD) instead of outstanding balance used under LKAS 39. As a result undrawn loan commitments/unutilised credit facilities would attract provisions.
- c. Expected loss to be measured by internal estimates of following loss statistics:
 - Probability of Default (PD) derived through age bucket transition matrix
 - Loss Given Default (LGD)-based on historical recoveries of defaulted loans
- d. Incorporate forward looking information to adjust loss statistics calculated by the Bank. These forward looking information include macroeconomic factors such as gross domestic production, inflation etc.
- e. SLFRS 9 requires provision to be made for all financial assets including foreign currency denominated Government Securities and corporate debentures.

4.29.1.3 Hedge accounting

Hedge accounting guidelines prescribed by SLFRS 9 do not have any impact on cash flow hedge accounting currently in place in the Bank.

4.29.2 SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance LKAS 18 – “Revenue” and LKAS 11 – “Construction Contracts”.

SLFRS 15 is effective for annual reporting period beginning on or after 1 January 2018, with early adoption permitted.

Based on the high level impact assessment performed the Group is not expecting a significant impact on fee and commission income on its Consolidated Financial Statements resulting from the application of SLFRS 15.

4.29.3 SLFRS 16 – Leases

SLFRS 16 requires lessees to recognise all leases on their Statement of Financial Position as lease liabilities, with the corresponding right of use assets.

The profit or loss recognition pattern for recognised leases will be similar to existing finance lease accounting, with interest and depreciation expense recognised separately in the Profit or Loss.

SLFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Based on the high level impact assessment performed, the Group is not expecting a significant impact on SLFRS 16 adoption except for the capitalisation of operating lease commitments.

5. Financial Risk Management

Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Banks' risk management framework. The Board discharges its governance responsibility through the Board Integrated Risk Management Committee, the Audit Committee and the Board Credit Committee. Board Integrated Risk Management Committee consists of non-executive members who report regularly to the Board of Directors on their activities. There are several Executive Management Subcommittees such as the Executive Market and Operational Committee, Asset and Liability Committee (ALCO), Executive Credit

Management Committee and IT Steering Committee, which focus on specialised risk areas that support the Board Integrated Risk Management Committee.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank and the Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and receivables to customers and other banks, and investment debt securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets is managed independently and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk, further details are provided in Market Risk section.

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Board Credit Committee. Bank Credit Risk Monitoring Unit reporting to the Executive Credit Management Committee through the Chief Risk Officer is responsible for

Management of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require approval by Heads of Credit, Board Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Heads of Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and receivables), and by issuer. Refer Concentration of Credit Risk in the Risk Report.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Heads of Credit who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Regular audits of business units and Bank credit processes are undertaken by Internal Audit.

Exposure to credit risk

The table below sets out information about credit quality of financial assets and allowance for impairment held by the Bank against those assets:

Carrying amount	2017		2016	
	Loans and receivables to customers LKR '000	Investment securities AFS, HTM and securities purchased under resale agreements LKR '000	Loans and receivables to customers LKR '000	Investment securities AFS, HTM and securities purchased under resale agreements LKR '000
Assets at amortised cost				
Individually impaired:				
Grade 3: impaired	1,585,514		1,613,124	
Grade 4: impaired	653,178		503,138	
Grade 5: impaired	547,168		150,370	
Grade 6: impaired	3,472,291		4,599,263	
Gross amount (a)	6,258,151		6,865,895	
Allowance for impairment (b)	1,633,352		2,325,683	
Carrying amount (a)-(b)	4,624,799		4,540,212	
Collectively impaired:				
Grade 3: impaired	2,367,301		908,730	
Grade 4: impaired	1,342,933		642,894	
Grade 5: impaired	488,789		414,629	
Grade 6: impaired	3,453,378		3,725,938	
Gross amount (c)	7,652,401		5,692,191	
Allowance for impairment (d)	3,289,647		3,190,758	
Carrying amount (c)-(d)	4,362,754		2,501,433	
Past due but not impaired (Watch list)				
Grade 1: 1-59 days	22,302,791		12,622,554	
Grade 2: 60-89 days	6,760,767		5,926,846	
Gross amount (e)	29,063,558		18,549,400	
Allowance for impairment (f)	287,088		212,775	
Carrying amount (e)-(f)	28,776,470		18,336,625	
Neither past due nor Impaired:				
Grade 0:	243,495,263		210,965,696	
Gross amount (g)	243,495,263		210,965,696	
Allowance for impairment (h)	397,379		323,769	
Carrying amount (g)-(h)	243,097,884		210,641,927	
Loans and receivables (Gross) (a+c+e+g)	286,469,373		242,073,182	
Allowance for impairment (b)+(d)+(f)+(h)	5,607,466		6,052,985	
Loans and receivables (net)	280,861,907		236,020,197	
Available-for-sale investment securities				
Quoted debentures		320,050		843,938
Gross amount		320,050		843,938
Fair value gain/(loss)		(7,031)		(28,019)
Carrying amount (i)		313,019		815,919
Treasury Bills and Bonds		51,771,874		47,095,397
Gross amount		51,771,874		47,095,397
Fair value gain/(loss)		(331,008)		(3,381,662)
Carrying amount (j)		51,440,866		43,713,735
Carrying amount – available-for-sale investment securities (k) = (i + j)		51,753,885		44,529,654
Held-to-maturity investment securities (l)		21,529,778		18,412,060
Securities purchased under resale agreements (m)		1,750,855		7,317,022
Total carrying amount (a-b+c-d+e-f+g-h) and (k+l+m)	280,861,907	75,034,518	236,020,197	70,258,736

Impaired loans and investment debt securities

Individually impaired loans and securities are loans and receivables and investment in debt securities HTM and AFS (other than those carried at fair value through profit or loss) for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan/investment security agreement(s). These loans are graded 3 to 6 in the Bank's internal credit risk grading system. Loans and receivables and investment debt securities carried at fair value through profit or loss are not assessed for impairment but are subject to the same internal grading system.

Past due but not impaired loans and investment debt securities

Past due but not impaired loans and investment debt securities, other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank. These loans are graded as Grades I and II in the Bank's credit grading system.

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortised cost, a collective loan loss allowance established for banks of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Set out below are an analysis of the gross and net (of allowances for impairment) amounts of individually significant and collectively impaired loans:

	Impaired loans and receivables					
	2017			2016		
	Individually impaired LKR '000	Collectively impaired LKR '000	Total LKR '000	Individually impaired LKR '000	Collectively impaired LKR '000	Total LKR '000
Gross amount	6,258,151	7,652,401	13,910,552	6,865,895	5,692,191	12,558,086
Less: Allowance for impairment	1,633,352	3,289,647	4,922,999	2,325,683	3,190,758	5,516,441
Carrying amount	4,624,799	4,362,754	8,987,553	4,540,212	2,501,433	7,041,645

Write-off Policy

The Bank writes-off a loan or an investment debt security balance, and any related allowances for impairment losses, when Bank determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

The Bank holds collateral against loans and receivables to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates

of fair value are based on the value of collateral assessed at the time of borrowing, and are updated regularly. Collateral generally is not held over loans and receivables to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

An estimate made at the time of borrowing of the fair value of collateral and other security enhancements held against loans and receivables to customers is given below and the value of collateral has been restricted to the value of the loans outstanding balances.

Loans and receivables are covered by the following collateral types. Where collateral values exceed the loan balance, collateral values have been restricted to the value of the loan outstanding balances.

Collateral type	2017 LKR '000	2016 LKR '000
Documentary bills (excluding export bills purchased at current exchange rate)	791,901	394,540
Government Securities	2,199,763	13,607
Stocks, bonds, debentures, sundries including life policies	12,550,100	6,663,769
Fixed, savings, other deposits and pawning	42,051,886	39,139,427
Stock in trade	11,301,887	6,526,730
Immovable property, plant and machinery	148,814,386	131,378,568
Personal guarantees and promissory notes	12,836,354	11,105,097
Trust receipts	1,812,834	1,949,259
Leasing agreements and motor vehicles	20,984,564	17,699,113
Other securities	24,482,064	19,380,803
	277,825,739	234,250,913
On clean basis	8,643,634	7,822,269
Total	286,469,373	242,073,182

Collateral held and other credit enhancement and the financial effect

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out principal types of collateral and their approximate collateral percentages that are held against different types of financial assets:

Type of credit exposure	Principal type of collateral held for secured lending	Percentage of exposure that is subject to an arrangement that requires collateralisation 2017 %
Derivative financial instruments	None	-
Loans and receivables to banks		
Securities purchased under resale agreements	Marketable securities	100
Placements with banks and finance Companies	None	-
Loans and receivables to retail customers		
Mortgage lending	Residential property	100
Credit cards	None	-
Personal loans	None/guarantors	-
Loans and receivables to other customers		
Finance Leases	Motor vehicles and equipment	100
Other lending to other customers	Commercial property, floating charges over other loans and receivables	97*
Securities purchased under resale agreements	Marketable securities	100

* Based on the exposure covered with collaterals.

Details of financial and non-financial assets obtained by the Bank as at 31 December 2017 by taking possession of collateral held as security (foreclosed) against loans and receivables as well as calls made on credit enhancements and held as at the year end are shown below:

Foreclosed properties	2017		2016	
	Loans and receivables LKR '000	Forced sale value of foreclosed collateral LKR '000	Loans and receivables LKR '000	Forced sale value of foreclosed collateral LKR '000
Balance as at 1 January	481,769	1,207,143	533,430	1,566,383
Additions during the year	454,604	609,115	33,227	97,510
Disposal during the year	(142,349)	(253,425)	(84,888)	(456,750)
Balance as at 31 December	794,024	1,562,833	481,769	1,207,143

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations.

Concentrations of credit risk

The Bank monitors concentrations of credit risk by industry and by geographic location.

- An analysis of concentrations of credit risk of loans and receivables by industry and by geographic location, at the reporting date are shown in Notes 24.1.3 and 24.1.4 to the Financial Statements.

Concentration by location for loans and receivables is measured based on the location of the branch entity holding the asset, which has a high correlation with the location of the borrower.

The table below shows the carrying amounts of the Bank's exposures to other financial instruments:

	2017 LKR '000	2016 LKR '000
Other financial assets – held for trading	7,939,213	9,060,416
Derivative financial instruments (assets)	60,165	115,707
Investment securities:		
Financial investments – available for sale	53,507,037	45,863,945
Financial investments – held to maturity	21,529,778	18,412,060

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses to the Bank.

Bank Treasury, receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Bank Treasury, then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and receivables to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units and subsidiary are met through short-term loans from Bank and Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank relies on deposits from customers and banks, and issues debt securities and subordinated liabilities as its primary sources of funding. While the Bank's debt securities and subordinated liabilities have maturities of five years, deposits from customers and banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to deposits from customers and other liabilities. For this purpose, liquid assets are considered as including cash and cash equivalents and investment for which there is an active and liquid market. A similar calculation is used to measure the Bank's compliance with the liquidity limit established by the Central Bank of Sri Lanka. Details of the reported Bank ratio of net liquid assets to liabilities from customers at the reporting date and during the year were as follows:

	2017		2016	
	DBU %	FCBU %	DBU %	FCBU %
At 31 December	23.57	37.08	22.68	26.24
Average for the year	23.84	30.62	23.34	23.00
Maximum for the year	25.43	37.08	26.40	27.32
Minimum for the year	21.78	23.39	20.88	21.10

Maturity analysis for the financial liabilities is shown below with their undiscounted impact over the future periods to explain the contractual liability:

Financial liabilities – 2017

	Less than 3 months LKR '000	3 months to 1 year LKR '000	1-5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Non-derivative liabilities					
Deposits from banks and other borrowings	7,894,369	6,677,340	16,800,467	-	31,372,176
Customer deposits	144,168,535	153,240,857	18,567,440	9,021,568	324,998,400
Debentures	2,501,556	498,351	8,108,527	5,767,281	16,875,715
Securities sold under repurchase agreements	16,328,359	722,581	-	-	17,050,940
Derivative liabilities					
Derivative financial instruments	571,557	-	-	-	571,557

Financial liabilities – 2016

	Less than 3 months LKR '000	3 months to 1 year LKR '000	1-5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Non-derivative liabilities					
Deposits from banks and other borrowings	11,154,787	6,713,054	866,703	-	18,734,544
Customer deposits	141,120,304	123,276,905	15,869,912	8,130,063	288,397,184
Debentures	508,775	-	11,552,313	6,217,220	18,278,308
Securities sold under repurchase agreements	15,689,836	689,281	-	-	16,379,117
Derivative liabilities					
Derivative financial instruments	86,654	-	-	-	86,654

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and Government Securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

Liquidity reserve

The table below sets out the components of Bank's liquid assets that are held for the liquidity purpose:

	2017	
	Carrying amount LKR '000	Fair value LKR '000
Cash and short-term funds*	8,319,384	8,319,384
Placements with banks and finance companies*	1,455,115	1,455,115
Balances with Central Bank of Sri Lanka*	19,119,843	19,119,843
Securities purchased under resale agreements*	1,750,855	1,750,855
Treasury Bills/Bonds (net of securities sold under repurchase agreements)	63,409,464	64,054,561
Bills purchased*	4,149,454	4,149,454
Total liquidity reserve	98,204,115	98,849,212

* The carrying amounts approximate their fair values as they are short term in nature (less than twelve months).

The table below sets out the availability of financial and non-financial assets held by the Bank on the basis of being encumbered or unencumbered as at 31 December 2017 and 31 December 2016:

	2017			Total LKR '000
	Encumbered		Unencumbered	
	Pledged as collateral LKR '000	Other LKR '000	Other LKR '000	
Cash and cash equivalents	-	-	8,319,384	8,319,384
Placements with banks and finance companies	-	-	1,455,115	1,455,115
Other financial assets – held for trading	-	-	7,939,213	7,939,213
Customer loans and receivables	-	-	280,861,907	280,861,907
Financial investments – available for sale and held to maturity	16,631,973	-	58,404,842	75,036,815
Other assets	-	-	34,513,405	34,513,405
Total assets	16,631,973	-	391,493,866	408,125,839

	2016			Total LKR '000
	Encumbered		Unencumbered	
	Pledged as collateral LKR '000	Other LKR '000	Other LKR '000	
Cash and cash equivalents	-	-	8,336,143	8,336,143
Placements with banks and finance companies	-	-	334,230	334,230
Other financial assets – held for trading	-	-	9,060,416	9,060,416
Customer loans and receivables	-	-	236,020,197	236,020,197
Financial investments – available for sale and held to maturity	15,976,518	-	48,299,487	64,276,005
Other assets	-	-	37,985,565	37,985,565
Total assets	15,976,518	-	340,036,038	356,012,556

Market risk

Market risk is the risk that changes in market prices such as interest rates, equity prices, foreign exchange rates, and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

	2017		
	Carrying amount	Trading portfolios	Non-trading portfolios
	LKR '000	LKR '000	LKR '000
Assets subject to market risk			
Other financial assets – held for trading	7,939,213	7,939,213	-
Derivative financial instruments	60,165	60,165	-
Placements with banks and finance companies	1,455,115	-	1,455,115
Customer loans and receivables	280,861,907	-	280,861,907
Financial investments – available for sale	53,507,037	-	53,507,037
Securities purchased under resale agreements	1,750,855	-	1,750,855
	345,574,292	7,999,378	337,574,914
Liabilities subject to market risk			
Derivative financial instruments	571,557	571,557	-
Customer deposits	307,098,902	-	307,098,902
Debentures	12,494,025	-	12,494,025
Due to banks and other borrowings	27,075,368	-	27,075,368
Securities sold under repurchase agreements	16,631,973	-	16,631,973
	363,871,825	571,557	363,300,268

	2016		
	Carrying amount LKR '000	Trading portfolios LKR '000	Non-trading portfolios LKR '000
Assets subject to market risk			
Other financial assets – held for trading	9,060,416	9,060,416	–
Derivative financial instruments	115,707	115,707	–
Placements with banks and finance companies	334,230	–	334,230
Customer loans and receivables	236,020,197	–	236,020,197
Financial investments – available for sale	45,863,945	–	45,863,945
Securities purchased under resale agreements	7,317,022	–	7,317,022
	298,711,517	9,176,123	289,535,394
Liabilities subject to market risk			
Derivative financial instruments	86,654	86,654	–
Customer deposits	273,456,344	–	273,456,344
Debentures	12,493,645	–	12,493,645
Due to banks and other borrowings	17,749,542	–	17,749,542
Securities sold under repurchase agreements	15,976,518	–	15,976,518
	319,762,703	86,654	319,676,049

Management of market risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Bank's Treasury Department, and include positions arising from market making and also held with a view to earn a profit of financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. The Bank's Market Risk Management Unit under the Chief Risk Officer is responsible for the development of detailed risk management policies which is overseen by the Executive Market and Operation Risk Management Committee (EMORC), (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Bank employs a range of tools to monitor and limit market risk exposures.

Exposure to Interest Rate Risk on the Banking Book (IRRBB)

Interest rate risk is the risk that the Bank will experience in deterioration in its financial positions as interest rates move over time.

Typically interest rate risk is split into two components: traded interest rate risk and non-traded interest rate risk. While the traded interest rate risk is relevant to trading activities and its affects, the latter is often referred to as interest rate risk on the balance sheet or to the banking book and arises from the Bank's core banking activities.

The interest rate position for Seylan Bank is that the duration of the liabilities to some extent is lesser than the duration of the assets in the shorter tenure of the repricing profile. Given this mismatch, under normal circumstances increasing interest rates will have a negative impact on the interest income of the Bank. On the other hand as liabilities reprice more quickly than assets, the average

interest rates paid on liabilities would adapt more quickly to lower market interest rates. This would then support the Bank's net interest income.

During 2017, the Monetary Board increased the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 25 basis points each. Effectively from 24 March 2017 the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank stood at 7.25% and 8.75% respectively.

The management of interest rate risk against interest rate gaps are monitored by the sensitivity of the Bank's interest sensitive assets and liabilities to a parallel shift to various interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp), a 200 bp, and a 250 bp parallel fall or rise in all yield curves and are used to measure both Earnings at Risk (EAR) and (Economic Value of Equity (EVE).

Projected Impact Analysis on EAR as at 31 December 2017 is depicted in the table below:

	100 bp parallel increase LKR Mn.	100 bp parallel decrease LKR Mn.	200 bp parallel increase LKR Mn.	200 bp parallel decrease LKR Mn.	250 bp parallel increase LKR Mn.	250 bp parallel decrease LKR Mn.
Sensitivity of projected net interest income 2018 (EAR)						
As at 31 December 2017	(289.72)	289.72	(579.43)	579.43	(743.31)	743.31
As at 31 December 2016	(265.42)	265.42	(530.84)	530.84	(680.27)	680.27

Maturity gaps

A summary of the Banks total assets and liabilities as at 31 December, based on the remaining period at the reporting date to the respective cash flow/maturity dates together with the maturity gaps are given below:

	Carrying amount LKR '000	Less than 3 months LKR '000	3-12 months LKR '000	1-5 years LKR '000	More than 5 years LKR '000
31 December 2017					
Interest earning assets					
Placements with banks and finance companies	1,455,115	1,455,115	-	-	-
Customer loans and receivables	280,861,907	136,881,411	51,412,088	78,877,297	13,691,111
Investments excluding equities	81,219,157	4,568,878	20,329,212	38,423,481	17,897,586
Securities purchased under resale agreements	1,750,855	1,743,646	7,209	-	-
Non-Interest earning assets	42,838,805	36,042,965	42,758	53,791	6,699,291
Total assets	408,125,839	180,692,015	71,791,267	117,354,569	38,287,988
Interest bearing liabilities					
Customer deposits	287,095,837	121,874,057	142,466,478	15,238,183	7,517,119
Due to banks and other borrowings	27,075,368	7,720,654	6,126,000	13,228,714	-
Securities sold under repurchase agreements	16,631,973	15,969,055	662,918	-	-
Debentures	12,494,025	2,459,155	462,280	6,296,840	3,275,750
Group balances payable	1,124,336	1,023,175	101,161	-	-
Non-interest bearing liabilities	63,704,300	29,498,377	-	-	34,205,923
Total liabilities	408,125,839	178,544,473	149,818,837	34,763,737	44,998,792
Gaps	-	2,147,542	(78,027,570)	82,590,832	(6,710,804)

	Carrying amount LKR '000	Less than 3 months LKR '000	3-12 months LKR '000	1-5 years LKR '000	More than 5 years LKR '000
31 December 2016					
Interest earning assets					
Placements with banks and finance companies	334,230	334,230	-	-	-
Customer loans and receivables	236,020,197	110,438,183	48,209,320	66,098,057	11,274,637
Investments excluding equities	71,994,640	7,289,698	6,243,675	37,390,207	21,071,060
Securities purchased under resale agreements	7,317,022	7,317,022	-	-	-
Non-Interest earning assets	40,346,467	32,294,383	50,749	69,618	7,931,717
Total assets	356,012,556	157,673,516	54,503,744	103,557,882	40,277,414
Interest bearing liabilities					
Customer deposits	251,809,783	117,234,609	114,750,513	13,050,861	6,773,800
Due to banks and other borrowings	17,749,542	10,909,060	6,158,200	682,282	-
Securities sold under repurchase agreements	15,976,518	15,344,208	632,310	-	-
Debentures	12,493,645	508,775	-	8,712,590	3,272,280
Group balances payable	219,745	7,082	62,663	150,000	-
Non-interest bearing liabilities	57,763,323	29,991,041	-	-	27,772,282
Total liabilities	356,012,556	173,994,775	121,603,686	22,595,733	37,818,362
Gaps	-	(16,321,259)	(67,099,942)	80,962,149	2,459,052

Exposure to other market risks

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

Based on the Bank's policies, risk management unit ensures that reporting in respect of the equity

investments and its valuation methodologies are appropriate and consistent, and assesses the potential impact on profits and capital.

Market risk limit measures for share investments are the framework to guide in share investments and for stop-losses. These limits are binding and monitored on a daily basis. Timely and accurate reporting helps the

Management to exercise exit strategies within the stop-loss limits and the Management Action Trigger limits (MAT limits).

The sensitivity analysis of our share investments helps the Management to understand and mitigate the risk the Bank is exposed to due to the vulnerability of price risk.

A sensitivity analysis of the Share Trading Portfolio is shown below at shock level of 10%, 20% and 30%, as at 31 December 2017 and 2016:

2017			2016		
Equity trading portfolio			Equity trading portfolio		
	Investment LKR Mn.	Market value LKR Mn.		Investment LKR Mn.	Market value LKR Mn.
As at 31 December	4.04	3.72		7.59	7.49
At shock levels of %	Impact on income statement due to fall in market value LKR Mn.	Effect on portfolio LKR Mn.	At shock levels of %	Impact on income statement due to fall in market value LKR Mn.	Effect on portfolio LKR Mn.
-10.00	-0.37	3.35	-10.00	-0.75	6.74
-20.00	-0.74	2.98	-20.00	-1.50	5.99
-30.00	-1.11	2.61	-30.00	-2.25	5.24

Foreign currency risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or equity. The Bank is exposed to foreign exchange rate risk that the value of a financial instrument or the investment in its foreign assets, may fluctuate due to changes in foreign exchange rates.

Given below are the foreign currency exposures and their rupee equivalent in the major currencies, in which the Bank trades in:

	In original foreign currency		Functional currency of the Bank	
	2017 '000	2016 '000	2017 LKR '000	2016 LKR '000
Net foreign currency exposure				
Great Britain Pound	0.28	1.20	57.56	221.97
United States Dollar	-261.81	2,154.90	-40,095.50	323,665.72
Euro	4.25	-0.32	777.10	-51.22
Japanese Yen	-241.26	322.28	-327.53	415.65
Australian Dollar	1.95	93.94	232.90	10,213.68

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of 5%, 10% and 15%, for a depreciation on the current exchange rate and the impact on the overall foreign currency NOP (in USD) and the impact on Income Statement is shown in the table below:

NOP as on 31 December 2017			NOP as on 31 December 2016		
	USD '000	LKR '000		USD '000	LKR '000
NOP	-134	-20,887	NOP	2,406	361,454
At shock levels of %	Revised rupee position LKR '000	Effect on income statement LKR '000	At shock levels of %	Revised rupee position LKR '000	Effect on income statement LKR '000
5	-21,931	-1,044	5	379,527	18,073
10	-22,976	-2,089	10	397,599	36,145
15	-24,020	-3,133	15	415,672	54,218

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market, and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to Senior Management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions; or
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective

Compliance with bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Management of the business unit to which they relate, with summaries submitted to the Audit Committee.

Capital management

Capital adequacy is a measure of a commercial bank's ability to withstand the associated risks of its business. Regulators find it necessary that every bank holds adequate capital to absorb unexpected losses as a going concern, while they price their

products and services to take care of expected risks. Capital Adequacy Ratio (CAR) is measured under Basel II till 30 June 2017 and thereafter Basel III and takes into account the Credit, Market and Operations risks. Keeping with the international standards of Basel Committee on Banking Regulations and Supervisory Practices, Sri Lanka has been following Basel III CAR calculation from 1 July 2017 after conducting parallel calculations in 2016 and the first half of 2017.

Available capital

Basel III accord recognises three capital elements, namely CET 1 Capital, Additional Tier 1 Capital and Tier 2 Capital.

CET 1 Capital includes equity capital, reserve fund, published retained earnings (accumulated retained losses), general and other reserves, and unpublished current year's profit/(losses) and gains reflected in OCI. Goodwill (net), other intangible assets, revaluation losses of PPE, deferred tax assets, cash flow hedge reserve, shortfall of the cumulative impairment to specific provisions, defined benefit pension fund assets, investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at CET 1 Capital.

Additional Tier 1 Capital includes qualifying instruments as per the regulatory directions. Investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at Additional Tier 1 Capital.

Tier 2 Capital includes qualifying Tier 2 Capital instruments, revaluation gains, and general provisions etc. Investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at Tier 2 Capital.

The minimum required total capital ratios to be maintained by the Bank are as follows:

	With effect from 1 July 2017	With effect from 1 January 2018	With effect from 1 January 2019
Banks with assets less than LKR 500 Bn.	11.25%	11.875%	12.50%
Banks with assets of LKR 500 Bn. and above	11.75%	12.875%	14.00%

The Bank and the Group capital adequacy details as at 31 December 2017 is given below:

Assets	Basel III*		Basel II	
	2017		2016	
	Bank LKR Mn.	Group LKR Mn.	Bank LKR Mn.	Group LKR Mn.
Total risk-weighted amount	275,070	277,069	240,297	242,584
Risk weighted amount of off-balance sheet exposure	19,539	19,606	13,610	13,677
Capital				
Common equity Tier 1 Capital	30,687	31,572		
Total Tier 1 Capital	30,687	31,572	25,806	26,542
Total Capital	36,451	37,286	31,661	32,345
Capital adequacy ratios				
Common equity Tier 1 capital ratio (%)	11.16	11.39		
Tier 1 Capital (%)	11.16	11.39	10.74	10.94
Total Capital ratio (%)	13.25	13.46	13.18	13.33

*Basel III is effective from 1 July 2017

Use of estimates and judgements

Management discusses with the Bank's Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties.

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy Note No. 4.4.6.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon Management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and receivables measured at amortised cost with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, Management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Fair value of financial instruments

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy Note No. 4.4.4. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of

market factors, pricing assumptions and other risks affecting the specific instrument. The fair value hierarchy of financial instruments is given below:

- **Level 1** – fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- **Level 3** – fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Valuation models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates and equity.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as foreign exchange forward contracts that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity

securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is sensitive to the specific events and general conditions in the financial markets.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the entity and the counterparty risk.

Valuation framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes an oversight by the market risk function, which is independent of front office management. Market risk has overall responsibility for independently verifying the results of trading and investment operation and all significant fair value measurements. Specific controls include:

- Verification of observable pricing;
- Reperformance of model valuations;
- A review and approval process for new models and changes to models involving both product control and group market risk;
- Quarterly calibration and back-testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value

measurement of Level 3 instruments compared with the previous period.

When third party information, such as broker quotes or pricing services, is used to measure fair value, market risk assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRSs/LKASs. This includes:

- Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- If a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

Significant valuation issues are reported to the Bank's Audit Committee.

Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

	2017			2016		
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000
Trading and AFS assets						
Other financial assets – held for trading	6,384,300	1,554,913	—	8,907,940	152,476	—
Derivative financial instruments	—	60,165	—	—	115,707	—
Financial investments – available for sale	46,469,249	6,379,125	658,663	39,980,199	5,389,920	493,826
Trading liabilities	—	—	—	—	—	—
Derivative financial instruments	—	571,557	—	—	86,654	—

i. Level 3 fair value measurements – reconciliation

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	2017 LKR '000	2016 LKR '000
Financial investments – available for sale (level 3)		
Balance as at 1 January	493,826	386,911
Total fair value gain in Other Comprehensive Income	164,837	106,915
Balance as at 31 December	658,663	493,826

ii. Unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used as at 31 December 2017 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Type of financial instrument	Fair values as at 31 December 2017 LKR '000	Valuation technique	Significant unobservable input	Fair value measurement sensitivity to unobservable inputs
Investment in unquoted equities	658,663	Net assets per share	None	None

iii. The effect of unobservable inputs on fair value measurement

In the absence of any other appropriate valuation technique, the unquoted investments have been valued using net assets per share basis. Accordingly, no assumptions have been used in the valuation of unquoted securities.

31 December 2017	Effect on other comprehensive income		Effect on statement of financial position	
	Favourable LKR '000	Unfavourable LKR '000	Favourable LKR '000	Unfavourable LKR '000
Investment in unquoted equities	164,837	(164,837)	164,837	(164,837)
Total	164,837	(164,837)	164,837	(164,837)

Financial instruments not measured at fair value

The table below show a comparison of the carrying amounts, as reported on the Statement of Financial Position, and fair values of all financial assets and liabilities carried at amortised cost:

	31 December 2017		31 December 2016	
	Carrying value LKR '000	Fair value LKR '000	Carrying value LKR '000	Fair value LKR '000
Financial assets				
Cash and cash equivalents	8,319,384	8,319,384	8,336,143	8,336,143
Securities purchased under resale agreements	1,750,855	1,750,855	7,317,022	7,317,022
Customer loans and receivables	280,861,907	279,481,587	236,020,197	234,781,470
Financial investments – held to maturity	21,529,778	22,162,218	18,412,060	18,041,629
Other financial assets	4,922,113	4,922,113	5,712,285	5,712,285
Financial liabilities				
Due to banks and other borrowings	27,075,368	27,075,368	17,749,542	17,749,542
Customer deposits	307,098,902	307,098,902	273,456,344	273,456,344
Securities sold under repurchase agreements	16,631,973	16,631,973	15,976,518	15,976,518
Debentures	12,494,025	12,755,428	12,493,645	11,447,502
Other financial liabilities	5,154,901	5,154,901	5,959,234	5,959,234

There are various limitations inherent in this fair value disclosure particularly where prices may not represent the underlying value due to dislocation in the market. Not all of the Bank's financial instruments can be exchanged in an active trading market. The Bank obtains the fair values for investment securities from quoted market prices where available. Where securities are unlisted and quoted market prices are not available, the Bank obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk, and liquidity.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised:

31 December 2017	Level I LKR '000	Level II LKR '000	Level III LKR '000	Total LKR '000
Financial assets				
Cash and cash equivalents	–	8,319,384	–	8,319,384
Securities purchased under resale agreements	–	1,750,855	–	1,750,855
Customer loans and receivables	–	–	279,481,587	279,481,587
Financial investments – held-to-maturity	18,304,119	3,199,300	658,799	22,162,218
Other financial assets	–	–	4,922,113	4,922,113
Financial liabilities				
Due to banks and other borrowings	–	–	27,075,368	27,075,368
Customer deposits	–	–	307,098,902	307,098,902
Securities sold under repurchase agreements	–	16,631,973	–	16,631,973
Debentures	–	12,755,428	–	12,755,428
Other financial liabilities	–	–	5,154,901	5,154,901

Given below are the methodologies and assumptions used in fair value estimates:

Cash and cash equivalents

The carrying amounts of cash and cash equivalents, approximate their fair value as those are short term in nature and are receivable on demand.

Securities purchased under resale agreements

These are short-term reverse repurchase contracts which will be matured within twelve months from the reporting date and thus the carrying amounts of such contracts approximate to their fair values.

Loans and receivables

Approximately 67% of the total portfolio of loans and receivables to customers has a remaining contractual maturity of less than one year.

The fair value of loans and receivables with a maturity of more than one year is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables. Such loans include both fixed and floating rate loans. Majority of the floating rate loans can be repriced while for fixed rate loans, the loan contract allows the Bank to change the contracted rate if there is a material difference between the contracted rate and the market interest rate.

The Bank calculated the fair value of the housing loan portfolio and leasing advances with a fixed interest rate and that will have a maturity of more than 12 months from the reporting date. Fair value of such loans as at 31 December 2017 was LKR 12,650 Mn. and LKR 15,693 Mn. as against the carrying value which amounted to LKR 13,500 Mn. and LKR 16,222 Mn. respectively.

Held-to-maturity financial assets

For the disclosure purpose the Bank has calculated the fair value of Held to maturity (HTM) financial assets based on price formula applicable to such instruments at the reporting date. For the debentures held under HTM portfolio fair value has been calculated using the market rate applicable for each instrument based on the remaining maturity period.

Liabilities

Bank and other borrowings

Approximately 51% of the amounts due to banks and others as at the reporting date have a remaining contractual maturity of less than one year. Majority of the balance amount comprised floating rate instruments. Therefore fair value of amounts due to banks approximate to the carrying value as at the reporting date.

Deposits

More than 92% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less

than one year. Customer deposits with a contractual maturity of more than one year are subject to premature upliftment. Amounts paid to customers in the event of premature upliftment would not be materially different to its carrying value as at date. Therefore, fair value of customer deposits approximates to their carrying value as at the reporting date.

Securities sold under repurchase agreement

Securities sold under repurchase agreements have a remaining contractual maturity of less than twelve months. Accordingly, carrying value of these borrowings would not be materially different to their fair values as at the reporting date.

Debentures

Debentures include fixed and variable rate debentures. In respect of fixed rate debentures, fair value has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments. Accordingly, the total debentures had a fair value of LKR 12,755 Mn. as at 31 December 2017 as against its carrying value which amounted to LKR 12,494 Mn.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
6. Gross income				
Interest income (Note 7.1)	43,725,934	33,457,232	43,731,971	33,472,831
Fee and commission income (Note 8.1)	3,952,760	3,223,231	3,952,557	3,222,864
Net trading income (Note 9)	(212,772)	(227,770)	(213,964)	(229,366)
Net gain on financial investments (Note 10)	358,636	11,895	358,636	11,895
Other operating income – net (Note 11)	1,513,740	1,408,305	2,044,178	1,434,555
Total gross income	49,338,298	37,872,893	49,873,378	37,912,779

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
7. Net interest income				
7.1 Interest income				
Placements with banks	19,963	4,000	19,963	4,000
Customer loans and receivables*	34,812,618	25,494,842	34,812,506	25,494,320
Sri Lanka Government Securities**	8,328,831	7,086,614	8,328,875	7,086,795
Debentures – available for sale	71,712	89,180	73,720	92,367
Debentures – held to maturity	137,032	213,986	140,548	225,543
Other***	355,778	568,610	356,359	569,806
Total interest income	43,725,934	33,457,232	43,731,971	33,472,831
7.2 Interest expenses				
Due to banks and other borrowings	2,417,744	1,280,260	2,417,928	1,281,154
Customer deposits	23,253,983	16,034,269	23,192,355	16,034,005
Securities sold under repurchase agreements	1,144,020	1,617,200	1,143,384	1,615,636
Debentures	1,419,054	1,058,756	1,403,304	1,042,963
Total interest expenses	28,234,801	19,990,485	28,156,971	19,973,758
Net interest income	15,491,133	13,466,747	15,575,000	13,499,073

* Interest income on customer loans and receivables includes interest accrued on impaired loans of LKR 326,532,244.00 in 2017. (LKR 290,819,459.00 for 2016).

** Includes interest income from Government Securities of held-for-trading, available-for-sale and held-to-maturity portfolios.

According to Section 137 of the Inland Revenue Act No. 10 of 2006, any person who derives income from secondary market transactions in Government Securities is entitled to a notional tax credit in relation to the tax payable by such person. Notional tax credit would be determined by grossing up the income from the secondary market transactions to an amount equal to 1/9 of same and credit to be afforded for a like sum. Accordingly, the Bank has accounted for LKR 665,036,053.00 as notional tax credit for the year 2017 (LKR 490,427,261.00 for 2016).

*** Comprises interest subsidy on the Special Deposit Scheme for Citizens over 60 years, introduced by the Government of Sri Lanka (CBSL Circular No. 02/17/600/0016/003 dated 13 March 2015).

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
7.3 Net interest income from Sri Lanka Government Securities				
Interest income	8,328,831	7,086,614	8,328,875	7,086,795
Less: Interest expenses	1,144,020	1,617,200	1,143,384	1,615,636
Net interest income from Sri Lanka Government Securities	7,184,811	5,469,414	7,185,491	5,471,159

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
8. Net fee and commission income				
8.1 Fee and commission income				
Fee income	1,151,993	928,879	1,151,790	928,512
Commission income	2,800,767	2,294,352	2,800,767	2,294,352
Total fee and commission income	3,952,760	3,223,231	3,952,557	3,222,864
Comprising				
Loans	957,099	856,763	957,099	856,763
Cards	998,186	764,314	998,186	764,314
Trade and remittances	752,327	668,818	752,327	668,818
Deposits	102,273	98,115	102,070	97,748
Guarantees	390,866	342,069	390,866	342,069
Other financial services	752,009	493,152	752,009	493,152
Total fee and commission income	3,952,760	3,223,231	3,952,557	3,222,864
8.2 Fee and commission expenses				
Comprising				
Brokerage fees	22,953	16,629	22,953	16,629
Cards	89,472	57,696	89,472	57,696
Other financial services	52,194	45,658	58,128	51,301
Total fee and commission expenses	164,619	119,983	170,553	125,626
Total net fee and commission income	3,788,141	3,103,248	3,782,004	3,097,238

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
9. Net trading income				
Derivative financial instruments				
From banks	(531,526)	(52,541)	(531,526)	(52,541)
From other customers	(1,553)	1,553	(1,553)	1,553
Other financial assets – held for trading				
Equities	1,051	(320)	(141)	(1,916)
Government Securities	319,256	(176,462)	319,256	(176,462)
Total net trading income	(212,772)	(227,770)	(213,964)	(229,366)

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
10. Net gain on financial investments				
Available for sale				
Equities	(9,184)	4,223	(9,184)	4,223
Government Securities	367,820	7,672	367,820	7,672
Total net gain on financial investments	358,636	11,895	358,636	11,895

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
11. Other operating income – net				
Dividend income				
Held-for-trading investment	24	237	24	237
Available-for-sale investment – quoted	9,782	9,245	9,782	9,245
Available-for-sale investment – unquoted	33,764	31,894	33,764	31,894
Investment in subsidiary	70,424	56,339	–	–
Profit on sale of property, plant and equipment	12,976	29,262	12,976	29,262
Profit on sale of assets held for sale (Note 34.2)	–	–	521,337	–
Foreign exchange income*	1,217,828	963,425	1,217,238	963,388
Recovery of loans written off	168,942	317,903	168,942	317,903
Others	–	–	80,115	82,626
Total other operating income – net	1,513,740	1,408,305	2,044,178	1,434,555

* This also includes gain/(loss) on revaluation of foreign exchange and gold.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
12. Net impairment loss				
Loans and receivables (Note 12.1)	1,495,825	974,433	1,495,825	974,433
Financial investments*	8,871	20,420	8,871	20,420
Property, plant and equipment (net reversal)	–	(40,666)	–	(40,482)
Total net impairment loss	1,504,696	954,187	1,504,696	954,371
* Impairment has been made on available-for-sale quoted equities.				
12.1 Loans and receivables				
Net impairment loss – Individual (Note 24.3.1)	1,069,797	931,597	1,069,797	931,597
Net impairment loss – Collective (Note 24.3.2)	423,679	38,005	423,679	38,005
Loans written off	2,349	4,831	2,349	4,831
Total net impairment loss on loans and receivables	1,495,825	974,433	1,495,825	974,433

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
13. Operating expenses				
Operating expenses include the following:				
Directors' emoluments	48,764	53,365	50,979	55,531
Auditors' remunerations				
Audit fees and expenses	9,288	8,843	10,314	9,856
Audit-related fees and expenses	9,820	5,522	9,820	5,522
Non-audit services	3,240	1,080	3,263	1,175
Depreciation – freehold property, plant and equipment (Note 29)	601,313	518,563	631,677	547,194
Depreciation – leasehold rights (Note 30)	1,945	1,946	9,355	9,356
Depreciation – investment properties (Note 31)	–	–	9,949	9,382
Amortisation of intangible assets (Note 32)	92,436	76,234	92,436	76,234
Donations	3,535	12,700	3,990	13,136
Legal expenses	91,888	82,760	92,000	83,877
Sri Lanka deposit insurance fund contribution	297,259	238,147	297,259	238,147
Operating lease expenses	640,457	590,270	640,457	590,270
Crop insurance levy	45,969	35,052	45,969	35,052

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
14. Personnel expenses				
Personnel expenses include the following:				
Salaries and bonuses	3,492,332	3,100,160	3,513,573	3,120,083
Contribution to Employees' Provident Fund	354,475	316,171	356,774	318,315
Contribution to Employees' Trust Fund	88,618	79,067	89,193	79,603
Provision for defined benefit obligations (Note 41.1.6)	30,764	48,335	30,304	48,007
Amortisation of prepaid staff cost	246,519	222,818	246,433	222,957
Other staff related expenses	983,155	843,522	992,513	853,083
Total personnel expenses	5,195,863	4,610,073	5,228,790	4,642,048

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
15. Income tax expense				
The components of income tax expense for the years ended 31 December 2016 and 2017 are:				
15.1 Current tax expense				
Income tax on current year's profits (Note 15.2)	2,068,743	1,663,748	2,102,912	1,673,216
Over provision in respect of previous years	(57,477)	(69,654)	(57,477)	(69,687)
Deferred taxation				
Transfer to deferred taxation (Note 33)	214,787	129,174	235,857	132,826
Total income tax expense	2,226,053	1,723,268	2,281,292	1,736,355
15.2 Reconciliation of the accounting profit to income tax expense				
Profit before income tax	6,656,451	5,733,718	7,284,923	5,771,245
Less: Profit from leasing activities	42,317	336,320	42,317	336,320
Profit from banking activities	6,614,134	5,397,398	7,242,606	5,434,925
Add: Disallowable expenses	2,683,955	2,160,394	2,866,677	2,530,456
Less: Allowable expenses	1,095,549	970,748	1,646,518	1,020,999
Exempt/allowable income	814,171	833,910	948,088	1,141,934
Business income	7,388,369	5,753,134	7,514,677	5,802,448
Income from other sources	-	-	62,308	2,713
Business income from banking activities	7,388,369	5,753,134	7,576,985	5,805,161
Business income/(loss) from leasing activities	(227,998)	395,158	(227,998)	395,158
Total statutory income	7,160,371	6,148,292	7,348,987	6,200,319
Add: Tax Losses incurred for the year – leasing (Note 15.3)	227,998	-	227,998	-
Less: Tax losses set-off (Note 15.3)	-	206,335	66,135	224,548
Assessable income	7,388,369	5,941,957	7,510,850	5,975,771
Qualifying payments	-	-	(450)	-
Taxable income	7,388,369	5,941,957	7,510,400	5,975,771
Income tax on current year's profit	2,068,743	1,663,748	2,102,912	1,673,216
Over provision in respect of previous years	(57,477)	(69,654)	(57,477)	(69,687)
Transfer to deferred taxation (Note 15.4)	214,787	129,174	235,857	132,826
Total income tax expense	2,226,053	1,723,268	2,281,292	1,736,355
Effective tax rate (Note 15.5) (%)	33	30	31	30
Effective tax rate (excluding deferred tax)(%)	30	28	28	28

- i. Current tax on profits has been computed at the rate of 28% on the taxable income arising from banking and leasing activities.
- ii. The subsidiary has computed taxation based on the rate applicable for such company (28%).

	2017 %
Income tax rates on	
a. Domestic operations of the Bank	28
b. Foreign currency banking unit of the Bank (onshore operations and offshore operations)	28
c. Seylan Developments PLC	28

	Bank				Group			
	2017		2016		2017		2016	
	Taxable income LKR '000	Tax expense LKR '000	Taxable income LKR '000	Tax expense LKR '000	Taxable income LKR '000	Tax expense LKR '000	Taxable income LKR '000	Tax expense LKR '000
Bank – domestic banking unit and onshore profits – 28%	7,382,119	2,066,993	5,937,754	1,662,571	7,504,150	2,101,162	5,971,568	1,672,039
Offshore profits – 28%	6,250	1,750	4,203	1,177	6,250	1,750	4,203	1,177
	7,388,369	2,068,743	5,941,957	1,663,748	7,510,400	2,102,912	5,975,771	1,673,216

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
15.3 Tax losses brought forward				
Tax losses brought forward	–	320,677	843,229	1,153,319
Add: Tax losses incurred during the year	227,998	–	227,998	–
Less: Tax losses utilised during the year	–	206,335	66,135	224,548
Less: Tax losses disallowed to be carried forward	–	114,342	–	85,542
Unutilised tax losses carried forward	227,998	–	1,005,092	843,229
15.4 Deferred tax expense/(income)				
Deferred tax – liability				
Property, plant and equipment	64,098	55,199	66,651	61,815
Lease rentals	168,055	(32,078)	168,055	(32,078)
	232,153	23,121	234,706	29,737
Deferred tax – assets				
Leave encashment provision	20,223	3,764	20,223	3,764
Other provisions	26,250	1,113	26,250	1,113
Tax losses carried forward	(63,839)	89,790	(45,322)	86,826
Reversal of revaluation loss on property, plant and equipment	–	11,386	–	11,386
	(17,366)	106,053	1,151	103,089
Transfer to deferred taxation	214,787	129,174	235,857	132,826

	Bank				Group			
	2017		2016		2017		2016	
	%	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000
15.5 Reconciliation of effective tax rate								
Profit before income tax	-	6,656,451	-	5,733,718	-	7,284,923	-	5,771,245
Less: Profit from leasing business	-	42,317	-	336,320	-	42,317	-	336,320
Profit from banking activities	-	6,614,134	-	5,397,398	-	7,242,606	-	5,434,925
Income tax using domestic tax rate	28	1,851,958	26	1,511,271	28	2,027,930	26	1,521,779
Disallowable expenses	11	751,507	11	604,910	11	802,670	12	708,527
Allowable expenses	(5)	(306,754)	(5)	(271,809)	(6)	(461,025)	(5)	(285,880)
Exempt income	(3)	(227,968)	(4)	(233,495)	(4)	(265,465)	(5)	(319,742)
Income from other sources	-	-	-	-	-	17,446	-	760
Business income from leasing activities	(1)	(63,839)	2	110,645	(1)	(63,839)	2	110,645
Adjustments/tax losses	1	63,839	(1)	(57,774)	1	45,321	(1)	(62,873)
Qualifying payments	-	-	-	-	-	(126)	-	-
Over provision in respect of previous years	(1)	(57,477)	(1)	(69,654)	(1)	(57,477)	(1)	(69,687)
Other temporary differences	3	214,787	2	129,174	3	235,857	2	132,826
Total income tax expense (Note 15.2)	33	2,226,053	30	1,723,268	31	2,281,292	30	1,736,355

16. Basic/diluted earnings per share

Basic earnings per share has been calculated by dividing profit after tax attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue (both voting and non-voting) during the year ended 31 December 2016 and 2017.

Diluted earnings per share and the basic earnings per share is the same due to non-availability of potentially dilutive ordinary shares.

	Bank		Group	
	2017	2016 Restated	2017	2016 Restated
Total profit after tax attributable to equity holders of the Bank (LKR '000)	4,430,398	4,010,450	4,816,834	4,013,132
Weighted average number of ordinary shares as at 31 December – Bank ('000) (Note 16.1)	352,141	352,141	352,141	352,141
Basic/diluted earnings per share (LKR)	12.58	11.39	13.68	11.40

	2017		2016	
	Outstanding	Weighted average	Outstanding	Weighted average restated
16.1 Weighted average number of ordinary shares for EPS				
Number of shares held as at 1 January	344,960,410	344,960,410	344,960,410	344,960,410
Add: Number of shares issued due to scrip dividend 2016	9,495,696	7,180,307	-	7,180,307
Number of shares held as at 31 December	354,456,106	352,140,717	344,960,410	352,140,717

Weighted average number of ordinary shares as at 31 December 2016 has been restated based on the number of shares issued for scrip dividend 2016.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
17. Dividends				
Ordinary share dividends				
Net dividend paid				
Cash dividends	320,664	864,387	320,664	864,387
Scrip dividends	698,545	–	698,545	–
Tax deducted at source	101,912	84,254	101,912	84,254
Gross dividend (Note 49)	1,121,121	948,641	1,121,121	948,641

The Board of Directors of the Bank has recommended the payment of a final dividend of LKR 3.50 per share for both voting and non-voting ordinary shareholders of the Bank to be paid by way of LKR 1.00 cash dividend per share and LKR 2.50 scrip dividend per share for the year ended 31 December 2017 (Bank declared a final dividend of LKR 3.25 per share for 2016 by way of LKR 1.00 cash dividend per share and LKR 2.25 scrip dividend per share).

The total dividend recommended by the Board of Directors is to be approved at the forthcoming Annual General Meeting to be held on 29 March 2018. Final dividend proposed for the year 2017 amounts to LKR 1,240,596,371.00 (LKR 1,121,121,332.50 for 2016).

In accordance with provisions of the Sri Lanka Accounting Standard No. 10 – “Events after the reporting period”, the proposed final dividend has not been recognised as a liability as at year end.

As required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend.

18. Analysis of financial instruments by measurement basis

18.1 Bank

	2017				
	Held for trading (HFT) LKR '000	Held to maturity (HTM) LKR '000	Loans and receivables (L & R) LKR '000	Available for sale (AFS) LKR '000	Total LKR '000
Assets					
Cash and cash equivalents	–	–	8,319,384	–	8,319,384
Balances with Central Bank of Sri Lanka	–	–	19,119,843	–	19,119,843
Placements with banks and finance companies	–	–	1,455,115	–	1,455,115
Derivative financial instruments	60,165	–	–	–	60,165
Other financial assets held for trading	7,939,213	–	–	–	7,939,213
Securities purchased under resale agreements	–	–	1,750,855	–	1,750,855
Customer loans and receivables	–	–	280,861,907	–	280,861,907
Financial investments – available for sale	–	–	–	53,507,037	53,507,037
Financial investments – held to maturity	–	21,529,778	–	–	21,529,778
Group balances receivable	–	–	30,000	–	30,000
Other financial assets	–	–	4,922,113	–	4,922,113
Total financial assets	7,999,378	21,529,778	316,459,217	53,507,037	399,495,410
	Held for trading (HFT) LKR '000	Amortised cost LKR '000	Total LKR '000		
Liabilities					
Due to banks	–	27,052,972	27,052,972		
Derivative financial instruments	–	571,557	571,557		
Customer deposits	–	307,098,902	307,098,902		
Securities sold under repurchase agreements	–	16,631,973	16,631,973		
Other borrowings	–	22,396	22,396		
Group balances payable	–	1,145,110	1,145,110		
Debentures	–	12,494,025	12,494,025		
Other financial liabilities	–	5,154,901	5,154,901		
Total financial liabilities	–	369,600,279	370,171,836		

	2016				
	Held for trading (HFT) LKR '000	Held to maturity (HTM) LKR '000	Loans and receivables (L & R) LKR '000	Available for sale (AFS) LKR '000	Total LKR '000
Assets					
Cash and cash equivalents	-	-	8,336,143	-	8,336,143
Balances with Central Bank of Sri Lanka	-	-	16,211,618	-	16,211,618
Placements with banks and finance companies	-	-	334,230	-	334,230
Derivative financial instruments	115,707	-	-	-	115,707
Other financial assets held for trading	9,060,416	-	-	-	9,060,416
Securities purchased under resale agreements	-	-	7,317,022	-	7,317,022
Customer loans and receivables	-	-	236,020,197	-	236,020,197
Financial investments – available for sale	-	-	-	45,863,945	45,863,945
Financial investments – held to maturity	-	18,412,060	-	-	18,412,060
Group balances receivable	-	-	30,102	-	30,102
Other financial assets	-	-	5,712,285	-	5,712,285
Total financial assets	9,176,123	18,412,060	273,961,597	45,863,945	347,413,725
	Held for trading (HFT) LKR '000			Amortised cost LKR '000	Total LKR '000
Liabilities					
Due to banks	-			17,728,293	17,728,293
Derivative financial instruments	86,654			-	86,654
Customer deposits	-			273,456,344	273,456,344
Securities sold under repurchase agreements	-			15,976,518	15,976,518
Other borrowings	-			21,249	21,249
Group balances payable	-			226,351	226,351
Debentures	-			12,493,645	12,493,645
Other financial liabilities	-			5,959,234	5,959,234
Total financial liabilities	86,654			325,861,634	325,948,288

18.2 Group

	2017				
	Held for trading (HFT) LKR '000	Held to maturity (HTM) LKR '000	Loans and receivables (L & R) LKR '000	Available for sale (AFS) LKR '000	Total LKR '000
Assets					
Cash and cash equivalents	-	-	8,319,424	-	8,319,424
Balances with Central Bank of Sri Lanka	-	-	19,119,843	-	19,119,843
Placements with banks and finance companies	-	-	1,455,115	-	1,455,115
Derivative financial instruments	60,165	-	-	-	60,165
Other financial assets held for trading	7,944,562	-	-	-	7,944,562
Securities purchased under resale agreements	-	-	1,750,855	-	1,750,855
Customer loans and receivables	-	-	280,861,907	-	280,861,907
Financial investments – available for sale	-	-	-	53,507,037	53,507,037
Financial investments – held to maturity	-	21,529,778	-	-	21,529,778
Other financial assets	-	-	4,944,991	-	4,944,991
Total financial assets	8,004,727	21,529,778	316,452,135	53,507,037	399,493,677

	Held for trading (HFT) LKR '000	Amortised cost LKR '000	Total LKR '000
Liabilities			
Due to banks	-	27,052,972	27,052,972
Derivative financial instruments	571,557	-	571,557
Customer deposits	-	307,098,902	307,098,902
Securities sold under repurchase agreements	-	16,631,973	16,631,973
Other borrowings	-	22,396	22,396
Debentures	-	12,494,025	12,494,025
Other financial liabilities	-	5,187,172	5,187,172
Total financial liabilities	571,557	368,487,440	369,058,997

	2016				Total LKR '000
	Held for trading (HFT) LKR '000	Held to maturity (HTM) LKR '000	Loans and receivables (L and R) LKR '000	Available for sale (AFS) LKR '000	
Assets					
Cash and cash equivalents	-	-	8,336,193	-	8,336,193
Balances with Central Bank of Sri Lanka	-	-	16,211,618	-	16,211,618
Placements with banks and finance companies	-	-	334,230	-	334,230
Derivative financial instruments	115,707	-	-	-	115,707
Other financial assets held for trading	9,066,980	-	-	-	9,066,980
Securities purchased under resale agreements	-	-	7,317,022	-	7,317,022
Customer loans and receivables	-	-	236,020,197	-	236,020,197
Financial investments – available for sale	-	-	-	45,900,746	45,900,746
Financial investments – held to maturity	-	18,479,155	-	-	18,479,155
Other financial assets	-	-	5,747,360	-	5,747,360
Total financial assets	9,182,687	18,479,155	273,966,620	45,900,746	347,529,208

	Held for trading (HFT) LKR '000	Amortised cost LKR '000	Total LKR '000
Liabilities			
Due to banks	-	17,728,293	17,728,293
Derivative financial instruments	86,654	-	86,654
Customer deposits	-	273,456,344	273,456,344
Securities sold under repurchase agreements	-	15,976,518	15,976,518
Other borrowings	-	21,249	21,249
Debentures	-	12,493,645	12,493,645
Other financial liabilities	-	5,975,172	5,975,172
Total financial liabilities	86,654	325,651,221	325,737,875

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
19. Cash and cash equivalents				
Cash in hand – local currency	7,132,098	7,537,751	7,132,138	7,537,801
Cash in hand – foreign currency	199,714	177,579	199,714	177,579
Balances with local banks	15,641	22,327	15,641	22,327
Balances with foreign banks	971,931	598,486	971,931	598,486
Total cash and cash equivalents	8,319,384	8,336,143	8,319,424	8,336,193

20. Balances with Central Bank of Sri Lanka

As required by Section 93 of the Monetary Law Act, a cash balance to fulfil the statutory reserve requirement of 7.5% (7.5% – 2016) of the rupee deposit liabilities to be maintained with Central Bank of Sri Lanka.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Statutory balances with the Central Bank of Sri Lanka	19,119,843	16,211,618	19,119,843	16,211,618
Total balances with Central Bank of Sri Lanka	19,119,843	16,211,618	19,119,843	16,211,618

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
21. Placements with banks and finance companies				
Term deposits with banks	1,455,115	334,230	1,455,115	334,230
Term deposits with finance companies	–	–	498	498
Impairment provision	–	–	(498)	(498)
Total placements with banks and finance companies	1,455,115	334,230	1,455,115	334,230

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
22. Derivative financial instruments				
22.1 Derivative assets				
Foreign currency derivatives				
Forward foreign exchange contracts	60,165	115,707	60,165	115,707
	60,165	115,707	60,165	115,707
22.2 Derivative liabilities				
Foreign currency derivatives				
Forward foreign exchange contracts				
– Designated as cash flow hedges – Note 22.2.1	181,227	–	181,227	–
– Not designated as cash flow hedges	390,330	86,654	390,330	86,654
	571,557	86,654	571,557	86,654

22.2.1 Cash flow hedges of foreign currency borrowings

The Group uses forward foreign exchange contracts to hedge the foreign currency risks arising from borrowings denominated in foreign currencies. These are designated as cash flow hedges.

The fair value of derivatives designated as cash flow hedge is as follows:

Instrument type	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Forward foreign exchange contracts	181,227	–	181,227	–
	181,227	–	181,227	–

The time periods in which the hedged cash flows are expected to occur are as follows:

	Within 1 year	1-5 years	Over 5 years
31 December 2017	USD 38 Mn.	-	-
31 December 2016	-	-	-

During 2017, net losses of LKR 7,366,194.00 (2016 – Nil) relating to the effective portion of cash flow hedges were recognised in cash flow hedge reserve through Other Comprehensive Income.

	Fair value	
	2017 LKR '000	2016 LKR '000
23. Other financial assets – held for trading		
Held by the Bank (Note 23.1)	7,939,213	9,060,416
Held by the subsidiary (Note 23.2)	5,349	6,564
Total other financial assets – held for trading – Group	7,944,562	9,066,980
23.1 Held by the Bank		
Quoted equities (Note 23.1.1)	3,719	7,490
Government of Sri Lanka Treasury Bills	2,390,470	264,618
Government of Sri Lanka Treasury Bonds	3,990,111	8,635,832
Sri Lanka Development Bonds	1,554,913	152,476
Total other financial assets – held for trading – Bank	7,939,213	9,060,416

	2017			2016		
	No. of ordinary equities	Cost LKR '000	Fair value LKR '000	No. of ordinary equities	Cost LKR '000	Fair value LKR '000
23.1.1 Quoted equities – Bank						
Construction and engineering						
Access Engineering PLC	47,500	1,194	1,121	-	-	-
Manufacturing						
Textured Jersey Lanka PLC	76,400	2,849	2,598	-	-	-
Piramal Glass Ceylon PLC	-	-	-	1,413,130	7,592	7,490
Total held-for-trading quoted equities – Bank		4,043	3,719		7,592	7,490
Marked to market valuation loss*		(324)			(102)	

	Fair value	
	2017 LKR '000	2016 LKR '000
23.2 Held by the subsidiary		
Quoted equities (Note 23.2.1)	5,349	6,564

	2017			2016		
	No. of ordinary equities	Cost LKR '000	Fair value LKR '000	No. of ordinary equities	Cost LKR '000	Fair value LKR '000
23.2.1 Quoted equities						
Banks finance and insurance						
Commercial Leasing & Finance Company PLC	1,981,038	9,905	5,349	1,989,239	9,946	6,564
Total held-for-trading quoted equities – subsidiary		9,905	5,349		9,946	6,564
Marked to market valuation loss*		(4,556)			(3,382)	

* Marked to market valuation gain/(loss) of financial assets classified as held for trading is included in net trading income (Note 9).

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
23.3 Fair value consists of				
Total cost/amortised cost	7,912,659	9,333,860	7,922,564	9,343,806
Marked to market valuation gain/(loss) *	26,554	(273,444)	21,998	(276,826)
Total fair value	7,939,213	9,060,416	7,944,562	9,066,980

* Marked to market valuation gain/(loss) of financial assets classified as held for trading is included in net trading income (Note 9).

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
24. Customer loans and receivables				
Gross loans and receivables (Note 24.1)	286,469,373	242,073,182	286,469,373	242,073,182
Impairment allowance for loans and receivables				
Individual impairment (Note 24.3.1)	(1,744,089)	(2,420,888)	(1,744,089)	(2,420,888)
Collective impairment (Note 24.3.2)	(3,863,377)	(3,632,097)	(3,863,377)	(3,632,097)
Total impairment allowance for loans and receivables (Note 24.3.3)	(5,607,466)	(6,052,985)	(5,607,466)	(6,052,985)
Total loans and receivables – net	280,861,907	236,020,197	280,861,907	236,020,197
24.1 Analysis of gross loans and receivables				
24.1.1 By product				
Local currency				
Export bills	15,359	119,573	15,359	119,573
Import bills	335,352	147,802	335,352	147,802
Local bills	130,330	142,892	130,330	142,892
Lease rentals receivable (Note 24.2)	16,222,825	14,685,690	16,222,825	14,685,690
Overdrafts	61,901,243	59,276,447	61,901,243	59,276,447
Revolving import loans	10,531,334	8,408,394	10,531,334	8,408,394
Packing credit loans	1,191,070	829,088	1,191,070	829,088
Trust receipt loans	1,812,834	1,949,259	1,812,834	1,949,259
Staff loans	6,108,917	5,521,128	6,108,917	5,521,128
Housing loans	13,401,222	12,477,818	13,401,222	12,477,818
Pawning receivables	10,046,055	9,609,406	10,046,055	9,609,406
Refinance loans	2,479,247	1,995,107	2,479,247	1,995,107
Credit cards	4,886,489	3,803,627	4,886,489	3,803,627
Margin trading	2,588,413	2,658,052	2,588,413	2,658,052
Factoring	1,099,984	445,452	1,099,984	445,452
Term loans	125,086,423	101,035,160	125,086,423	101,035,160
Rupee gross loans and receivables	257,837,097	223,104,895	257,837,097	223,104,895
Foreign currency				
Export bills	3,164,298	1,638,602	3,164,298	1,638,602
Import bills	459,456	97,213	459,456	97,213
Local bills	44,659	79,037	44,659	79,037
Overdrafts	886,908	799,936	886,908	799,936
Revolving import loans	442,327	659,811	442,327	659,811
Packing credit loans	9,555,196	7,784,939	9,555,196	7,784,939
Housing loans	98,917	37,594	98,917	37,594
Term loans	13,980,515	7,871,155	13,980,515	7,871,155
Foreign currency gross loans and receivables	28,632,276	18,968,287	28,632,276	18,968,287
Total gross loans and receivables	286,469,373	242,073,182	286,469,373	242,073,182

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
24.1.2 By currency				
Sri Lankan Rupee	257,837,097	223,104,895	257,837,097	223,104,895
United States Dollar	28,015,017	18,869,415	28,015,017	18,869,415
Euro	302,195	15,750	302,195	15,750
Great Britain Pound	229,347	34,833	229,347	34,833
Japanese Yen	36,608	38,394	36,608	38,394
Australian Dollar	29,572	9,895	29,572	9,895
New Zealand Dollar	12,512	-	12,512	-
Singapore Dollar	7,013	-	7,013	-
Canadian Dollar	12	-	12	-
Total gross loans and receivables	286,469,373	242,073,182	286,469,373	242,073,182
24.1.3 By industry-wise				
Agriculture and fishing	29,270,288	21,203,942	29,270,288	21,203,942
Manufacturing	34,776,273	26,046,082	34,776,273	26,046,082
Tourism	16,728,197	11,130,650	16,728,197	11,130,650
Transport*	26,185,451	25,795,747	26,185,451	25,795,747
Construction	32,481,598	24,716,395	32,481,598	24,716,395
Traders	53,633,312	50,288,818	53,633,312	50,288,818
New economy (e-commerce, IT etc.)	1,850,642	1,753,684	1,850,642	1,753,684
Financial and business services	32,776,967	32,532,072	32,776,967	32,532,072
Infrastructure	2,630,970	2,149,585	2,630,970	2,149,585
Other services (education, media, health etc.)	7,925,446	8,271,100	7,925,446	8,271,100
Credit cards	4,886,489	3,803,627	4,886,489	3,803,627
Pawning*	10,046,055	9,609,406	10,046,055	9,609,406
Others	33,277,685	24,772,074	33,277,685	24,772,074
Total gross loans and receivables	286,469,373	242,073,182	286,469,373	242,073,182

* Pawning includes agriculture sector lending and transport includes leasing portfolio.

Sector-wise analysis of credit portfolio given above, reflects the exposure to credit risk in the various sectors of the economy.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
24.1.4 By province				
Western	213,099,074	179,687,568	213,099,074	179,687,568
Southern	17,992,248	12,238,582	17,992,248	12,238,582
Uva	2,840,512	2,434,138	2,840,512	2,434,138
North Central	4,478,058	3,943,130	4,478,058	3,943,130
North Western	11,402,506	9,917,968	11,402,506	9,917,968
Eastern	8,044,659	6,803,151	8,044,659	6,803,151
Northern	5,560,749	5,254,395	5,560,749	5,254,395
Sabaragamuwa	9,882,549	9,578,477	9,882,549	9,578,477
Central	13,169,018	12,215,773	13,169,018	12,215,773
Total gross loans and receivables	286,469,373	242,073,182	286,469,373	242,073,182

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
24.2 Lease rentals receivable				
Lease rentals receivable within one year (Note 24.2.1)	6,229,740	5,435,321	6,229,740	5,435,321
Lease rentals receivable later than one year and not later than five years (Note 24.2.2)	9,940,360	9,235,712	9,940,360	9,235,712
Lease rentals receivable later than five years (Note 24.2.3)	52,725	14,657	52,725	14,657
	16,222,825	14,685,690	16,222,825	14,685,690
24.2.1 Lease rentals receivable within one year				
From the reporting date	8,180,063	7,037,135	8,180,063	7,037,135
Unearned income	(1,950,323)	(1,601,814)	(1,950,323)	(1,601,814)
	6,229,740	5,435,321	6,229,740	5,435,321
24.2.2 Lease rentals receivable later than one year and not later than five years				
From the reporting date	12,009,099	10,747,487	12,009,099	10,747,487
Deposits of rentals	(137,084)	(47,580)	(137,084)	(47,580)
Unearned income	(1,931,655)	(1,464,195)	(1,931,655)	(1,464,195)
	9,940,360	9,235,712	9,940,360	9,235,712
24.2.3 Lease rentals receivable later than five years				
From the reporting date	59,080	16,603	59,080	16,603
Unearned income	(6,355)	(1,946)	(6,355)	(1,946)
	52,725	14,657	52,725	14,657

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
24.3 Movement in impairment allowance on loans and receivables				
24.3.1 Allowance for individual impairment				
Balance as at 1 January	2,420,888	2,019,537	2,420,888	2,019,537
Net impairment during the year	1,069,797	931,597	1,069,797	931,597
Reversal for write-off during the year	(1,413,347)	(239,426)	(1,413,347)	(239,426)
Interest accrued on impaired loans and receivables	(326,532)	(290,820)	(326,532)	(290,820)
Transfer from/(to) collective impairment	(6,717)	-	(6,717)	-
Balance as at 31 December	1,744,089	2,420,888	1,744,089	2,420,888
24.3.2 Allowance for collective impairment				
Balance as at 1 January	3,632,097	3,718,492	3,632,097	3,718,492
Net impairment during the year	423,679	38,005	423,679	38,005
Reversal for write-off during the year	(199,116)	(124,400)	(199,116)	(124,400)
Transfer from/(to) individual impairment	6,717	-	6,717	-
Balance as at 31 December	3,863,377	3,632,097	3,863,377	3,632,097
24.3.3 Movement in impairment allowance for loans and receivables				
Balance as at 1 January	6,052,985	5,738,029	6,052,985	5,738,029
Net impairment during the year	1,493,476	969,602	1,493,476	969,602
Reversal for write-off during the year	(1,612,463)	(363,826)	(1,612,463)	(363,826)
Interest accrued on impaired loans and receivables	(326,532)	(290,820)	(326,532)	(290,820)
Balance as at 31 December	5,607,466	6,052,985	5,607,466	6,052,985

	Fair value	
	2017 LKR '000	2016 LKR '000
25. Financial investments – available for sale		
Held by the Bank (Note 25.1)	53,507,037	45,863,945
Held by the subsidiary (Note 25.2)	–	36,801
Total financial investments – available for sale – Group	53,507,037	45,900,746
25.1 Held by the Bank		
Quoted equities (Note 25.1.1)	1,094,489	840,465
Unquoted equities (Note 25.1.2)	658,663	493,826
Government of Sri Lanka Treasury Bills	1,186,430	6,642
Government of Sri Lanka Treasury Bonds	44,188,330	39,133,092
Sri Lanka Development Bonds	6,066,106	4,574,001
Quoted debentures (Note 25.1.3)	313,019	815,919
Total financial investments – available for sale – Bank	53,507,037	45,863,945

	2017			2016		
	No. of ordinary equities	Cost LKR '000	Fair value LKR '000	No. of ordinary equities	Cost LKR '000	Fair value LKR '000
25.1.1 Quoted equities – Bank						
Banks finance and insurance						
The Finance Company PLC	1,003,163	29,393	5,216	3,241,240	94,968	21,392
Diversified holdings						
John Keells Holdings PLC	660,142	119,181	98,031	835,142	150,776	121,096
Expo Lanka Holdings PLC	–	–	–	803,686	6,741	5,063
Financial services						
Visa Inc.	53,312	64,414	930,943	53,312	64,414	624,742
Hotels and travels						
John Keells Hotels PLC	3,552,311	43,693	31,260	3,552,311	43,693	38,720
Manufacturing						
Chevron Lubricants Lanka PLC	120,407	19,329	14,328	68,374	10,455	10,742
Piramal Glass Ceylon PLC	627,401	3,842	3,639	627,401	3,842	3,325
Power and energy						
Lanka IOC PLC	395,421	18,037	11,072	395,421	18,037	12,535
Footwear and textiles						
Hayleys MGT Knitting Mills PLC	–	–	–	190,000	4,088	2,850
Total available-for-sale quoted equities – Bank		297,889	1,094,489		397,014	840,465
25.1.2 Unquoted equities – Bank						
Credit Information Bureau of Sri Lanka	2,900	290	46,058	2,900	290	38,681
LankaClear (Pvt) Limited	1,000,000	10,000	104,753	1,000,000	10,000	88,433
Lanka Financial Services Bureau Limited	225,000	2,250	3,481	225,000	2,250	2,691
Transnational Lanka Records Solutions (Pvt) Limited	1,000,000	10,000	44,610	1,000,000	10,000	39,628
HNB Grameen Finance Limited*	233,200,000	2,332,000	459,761	233,200,000	2,332,000	324,393
Total available-for-sale unquoted equities – Bank		2,354,540	658,663		2,354,540	493,826

Fair value is based on Net Assets per Share Basis as per the Audited Financial Statements of these companies as at following dates:

Credit Information Bureau of Sri Lanka – 31 December 2016

LankaClear (Pvt) Limited – 31 March 2017

Lanka Financial Services Bureau Limited – 31 March 2017

Transnational Lanka Records Solutions (Pvt) Limited – 30 June 2017

HNB Grameen Finance Limited – 31 March 2017

* The Bank restructured its loan portfolio to HNB Grameen Finance Limited (previously known as Grameen Micro Credit Company Limited) (LKR 2.725 Bn.) by obtaining approval from the Monetary Board and converted LKR 1 Bn. of the outstanding loan to 15% cumulative/redeemable/convertible/preference shares. Further, the Bank converted the balance of LKR 1.725 Bn. to secured debentures at an interest rate of Treasury Bills + 10% per annum, which will mature from 2012 to 2019.

However, with effect from 25 June 2012, the Central Bank of Sri Lanka has directed to convert the investments in HNB Grameen Finance Limited (previously known as Grameen Micro Credit Company Limited) to LKR 665 Mn. debentures which are secured against the mortgaged properties (redeemable from 2020 to 2040) and the balance LKR 2,060 Mn. together with interest due amounting to LKR 272 Mn. to 233,200,000 non-voting shares of LKR 10.00 each amounting to LKR 2.332 Bn.

This investment was fully impaired during 2010 & 2011 and subsequent fair value increases were recognised in available-for-sale reserves through other comprehensive income.

	2017		2016	
	Amortised cost LKR '000	Fair value LKR '000	Amortised cost LKR '000	Fair value LKR '000
25.1.3 Quoted debentures – Bank				
Abans PLC (994,410 debentures of LKR 100.00 each)	–	–	99,576	95,445
DFCC Bank PLC (3,155,900 debentures of LKR 100.00 each)	–	–	323,370	316,089
People's Leasing & Finance PLC (1,784,531 debentures of LKR 100.00 each)	194,565	196,260	194,565	203,357
Pan Asia Banking Corporation (486,112 debentures of LKR 100.00 each)	50,097	47,873	50,192	45,037
HDFC Bank (745,300 debentures of LKR 100.00 each)	75,388	68,886	75,430	62,662
Dunamis Capital PLC (1,000,000 debentures of LKR 100.00 each)	–	–	100,805	93,329
Total available-for-sale quoted debentures – Bank	320,050	313,019	843,938	815,919

	Fair value	
	2017 LKR '000	2016 LKR '000
25.2 Held by the subsidiary		
Unquoted equities (Note 25.2.1)	–	–
Quoted equities (Note 25.2.2)	–	1
Quoted debentures (Note 25.2.3)	–	36,800
Total financial investments – available for sale – subsidiary	–	36,801

	2017			2016		
	No. of ordinary equities	Cost LKR '000	Fair value LKR '000	No. of ordinary equities	Cost LKR '000	Fair value LKR '000
25.2.1 Unquoted equities						
Asian Finance Company Limited	75,000	750	–	75,000	750	–
Certis Lanka Home Nursing & Swift Care (Pvt) Limited	75,000	750	–	75,000	750	–
Ceylinco International Realty (Pvt) Limited	200,000	2,000	–	200,000	2,000	–
International Consultancy & Corporate Services (Pvt) Limited	5,000	50	–	5,000	50	–
Standard Credit Finance Limited (Formerly known as Standard Credit Lanka Limited)	8,040,969	44,041	–	8,040,969	44,041	–
Total available-for-sale unquoted equities – subsidiary		47,591	–*		47,591	–*

* Unquoted shares have been fully-provided due to permanent diminution in value of shares.

	2017			2016		
	No. of ordinary equities	Cost LKR '000	Fair value LKR '000	No. of ordinary equities	Cost LKR '000	Fair value LKR '000
25.2.2 Quoted equities						
Banks finance and insurance						
Merchant Bank of Sri Lanka & Finance PLC	-	-	-	90	250	1
Total available-for-sale quoted equities – subsidiary		-	-	250	1	

	2017		2016	
	Amortised cost LKR '000	Fair value LKR '000	Amortised cost LKR '000	Fair value LKR '000
25.2.3 Quoted debentures				
DFCC Bank PLC (382,300 debentures of LKR 100.00 each)	-	-	39,025	36,800
Total available-for-sale quoted debentures – subsidiary	-	-	39,025	36,800

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
25.3 Fair value consists of				
Total cost/amortised cost	54,758,240	50,712,095	54,805,831	50,798,961
Fair value changes recognised in Other Comprehensive Income	1,112,440	(2,442,574)	1,112,440	(2,445,048)
Less: Provision for Impairment (Note 25.4)	(2,363,643)	(2,405,576)	(2,411,234)	(2,453,167)
Total fair value	53,507,037	45,863,945	53,507,037	45,900,746
25.4 Movement in provision for impairment of available for sale investments				
Balance as at 1 January	2,405,576	2,385,156	2,453,167	2,437,231
Impairment made during the year (Note 12)	8,871	20,420	8,871	20,420
Reversal on disposal/write off	(50,804)	-	(50,804)	(4,484)
Balance as at 31 December	2,363,643	2,405,576	2,411,234	2,453,167

	Amortised cost	
	2017 LKR '000	2016 LKR '000
26. Financial investments – held to maturity		
Held by the bank (Note 26.1)	21,529,778	18,412,060
Held by the subsidiary (Note 26.2)	-	67,095
Total financial investments – held to maturity – Group	21,529,778	18,479,155
26.1 Held by the Bank		
Government of Sri Lanka Treasury Bills	-	881,694
Government of Sri Lanka Treasury Bonds	17,658,702	13,249,033
Sri Lanka Development Bonds	3,006,375	3,050,923
Quoted debentures (Note 26.1.1)	193,956	559,694
Unquoted debentures (Note 26.1.2)	670,745	670,716
Total financial investments – held to maturity – Bank	21,529,778	18,412,060

	Amortised cost	
	2017 LKR '000	2016 LKR '000
26.1.1 Quoted debentures – Bank		
Abans PLC (720,700 debentures of LKR 100.00 each)	–	77,247
Central Finance Company PLC (197,000 debentures of LKR 100.00 each)	–	21,016
Merchant Bank of Sri Lanka PLC (1,884,200 debentures of LKR 100.00 each)	–	215,343
Senkadagala Finance PLC (208,519 debentures of LKR 100.00 each)	–	21,759
Richard Pieris and Company PLC (295,800 debentures of LKR 100.00 each)	–	30,382
Richard Pieris and Company PLC (1,174,300 debentures of LKR 100.00 each)	120,718	120,718
L B Finance PLC (445,200 debentures of LKR 100.00 each)	45,049	45,049
Hemas Holdings PLC (274,200 debentures of LKR 100.00 each)	28,189	28,180
Total held-to-maturity quoted debentures – Bank	193,956	559,694
26.1.2 Unquoted debentures – Bank		
HNB Grameen Finance Limited	670,745	670,716
Total held-to-maturity unquoted debentures – Bank	670,745	670,716
26.2 Held by the subsidiary		
Quoted debentures (Note 26.2.1)	–	67,095
26.2.1 Quoted debentures		
Merchant Bank of Sri Lanka (125,000 debentures of LKR 100.00 each)	–	12,925
People's Leasing & Finance PLC (500,000 debentures of LKR 100.00 each)	–	54,170
Total held-to-maturity quoted debentures – subsidiary	–	67,095

Primary activity	2017				2016				
	No. of ordinary equities	Holding %	Cost LKR '000	Market value LKR '000	No. of ordinary equities	Holding %	Cost LKR '000	Market value LKR '000	
27. Investment in subsidiary									
Held-to-maturity quoted – ordinary shares									
Seylan Developments PLC	Property development/ management	104,332,112	70.51	1,153,602	1,418,917	104,332,112	70.51	1,153,602	1,502,382
				1,153,602	1,418,917			1,153,602	1,502,382

	2017 LKR '000	2016 LKR '000
27.1 Non-Controlling Interest (NCI) in subsidiary, Seylan Developments PLC		
NCI (%)	29.49	29.49
Total assets	5,474,019	5,315,688
Total liabilities	652,450	633,622
Net assets	4,821,569	4,682,066
Carrying amount of NCI (Note 27.2)	1,213,666	1,065,190
Revenue	264,340	212,340
Profit	241,262	374,581
Total comprehensive income	250,477	373,964
Profit allocated to NCI	186,797	21,758
Cash flow from operating activities	118,358	91,192
Cash flow from investing activities	952,006	(3,741)
Cash flow from financing activities – before dividend to NCI	(78,249)	(62,600)
Cash flow from financing activities – cash dividend to NCI	(32,725)	(26,179)
Net increase/(decrease) in cash and cash equivalents	959,390	(1,328)
27.2 Carrying amount of Non-Controlling Interest (NCI)		
Balance as at 1 January	1,065,190	1,067,194
Profit for the year	186,797	21,758
Other comprehensive income, net of tax	(5,596)	5,111
Dividends paid for the year	(32,725)	(26,179)
Acquisition of non-controlling interest without change in control	-	(2,694)
Balance as at 31 December	1,213,666	1,065,190

	2017 LKR '000	2016 LKR '000
28. Group balances receivable		
Seylan Developments PLC	30,000	30,102
	30,000	30,102

	Freehold land LKR '000	Freehold buildings LKR '000	Computer equipment LKR '000	Office machines and equipment LKR '000	Fixtures, fittings and furniture LKR '000	Motor vehicles LKR '000	Leased assets LKR '000	Total LKR '000
29. Property, plant and equipment								
29.1 Bank								
Cost/valuation								
Balance as at 1 January 2016	828,542	936,052	3,630,254	1,340,567	1,546,780	163,387	48,990	8,494,572
Additions and improvements	-	-	450,016	91,715	180,638	39,384	-	761,753
Surplus/(deficit) on revaluation	465,575	307,022	-	-	-	-	-	772,597
Disposals/write-offs	-	-	(362,553)	(322,810)	(70,032)	(45,621)	(593)	(801,609)
Other transfers from/(to)	-	-	(34)	1	33	-	-	-
Balance as at 31 December 2016	1,294,117	1,243,074	3,717,683	1,109,473	1,657,419	157,150	48,397	9,227,313
Additions and improvements	-	-	447,970	76,502	119,662	23,675	-	667,809
Surplus/(deficit) on revaluation	-	-	-	-	-	-	-	-
Disposals/write-offs	-	-	(28,705)	(19,467)	(12,408)	(8,150)	-	(68,730)
Other transfers from/(to)	-	(934,000)*	5,627	(5,627)	-	-	-	(934,000)
Balance as at 31 December 2017	1,294,117	309,074	4,142,575	1,160,881	1,764,673	172,675	48,397	8,892,392
Accumulated depreciation								
Balance as at 1 January 2016	-	63,191	2,896,426	1,076,938	1,069,317	111,958	48,990	5,266,820
Charge for the year	-	31,595	198,832	91,854	178,282	18,000	-	518,563
Revaluation adjustment on accumulated depreciation	-	(94,786)	-	-	-	-	-	(94,786)
Disposals/write-offs	-	-	(362,525)	(322,747)	(69,440)	(37,501)	(593)	(792,806)
Other transfers from/(to)	-	-	(21)	17	4	-	-	-
Balance as at 31 December 2016	-	-	2,732,712	846,062	1,178,163	92,457	48,397	4,897,791
Charge for the year	-	47,233	264,385	88,680	178,532	22,483	-	601,313
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-
Disposals/write-offs	-	-	(28,705)	(19,251)	(12,289)	(8,150)	-	(68,395)
Other transfers from/(to)	-	(33,457)*	3,081	(3,081)	-	-	-	(33,457)
Balance as at 31 December 2017	-	13,776	2,971,473	912,410	1,344,406	106,790	48,397	5,397,252
Carrying amount								
As at 31 December 2016	1,294,117	1,243,074	984,971	263,411	479,256	64,693	-	4,329,522
As at 31 December 2017	1,294,117	295,298	1,171,102	248,471	420,267	65,885	-	3,495,140

* Property at 90, Galle Road Colombo 3, was transferred to assets held for sale as the Bank intends to dispose the same during the year 2018.

	Freehold land	Freehold buildings	Computer equipment	Office machines and equipment	Fixtures, fittings and furniture	Motor vehicles	Leased assets	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
29.2 Group								
Cost/valuation								
Balance as at 1 January 2016	828,542	2,558,935	3,636,685	1,420,649	1,558,472	163,387	48,989	10,215,659
Additions and improvements	-	1,098	450,260	91,838	180,638	39,384	-	763,218
Surplus/(deficit) on revaluation	465,575	307,502	(481)	-	265	-	-	772,861
Disposals/write-offs	-	-	(362,610)	(323,201)	(73,799)	(45,621)	(593)	(805,824)
Other transfers from/(to)	-	-	(71)	1	33	-	-	(37)*
Balance as at 31 December 2016	1,294,117	2,867,535	3,723,783	1,189,287	1,665,609	157,150	48,396	10,945,877
Additions and improvements	-	-	448,559	95,628	122,574	23,675	-	690,436
Surplus/(deficit) on revaluation	-	(50,185)	-	-	-	-	-	(50,185)
Disposals/write-offs	-	-	(28,812)	(19,467)	(12,931)	(8,150)	-	(69,360)
Other transfers from/(to)	-	-	5,627	(5,627)	-	-	-	-
Balance as at 31 December 2017	1,294,117	2,817,350	4,149,157	1,259,821	1,775,252	172,675	48,396	11,516,768
Accumulated depreciation								
Balance as at 1 January 2016	-	63,191	2,900,920	1,140,455	1,074,880	111,958	48,989	5,340,393
Charge for the year	-	53,248	199,438	96,931	179,577	18,000	-	547,194
Revaluation adjustment on accumulated depreciation	-	(116,439)	(1,476)	-	(841)	-	-	(118,756)
Disposals/write-offs	-	-	(362,581)	(322,747)	(71,195)	(37,501)	(593)	(794,617)
Other transfers from/(to)	-	-	(51)	17	4	-	-	(30)*
Balance as at 31 December 2016	-	-	2,736,250	914,656	1,182,425	92,457	48,396	4,974,184
Charge for the year	-	69,184	264,976	95,591	179,443	22,483	-	631,677
Revaluation adjustment on accumulated depreciation	-	(21,951)	-	-	-	-	-	(21,951)
Disposals/write-offs	-	-	(28,813)	(19,251)	(12,514)	(8,150)	-	(68,728)
Other transfers from/(to)	-	-	3,081	(3,081)	-	-	-	-
Balance as at 31 December 2017	-	47,233	2,975,494	987,915	1,349,354	106,790	48,396	5,515,182
Carrying amount								
As at 31 December 2016	1,294,117	2,867,535	987,533	274,631	483,184	64,693	-	5,971,693
As at 31 December 2017	1,294,117	2,770,117	1,173,663	271,906	425,898	65,885	-	6,001,586

* Comprise a transfer to investment property by the subsidiary at its carrying value.

Investment property rented to Seylan Bank PLC by its subsidiary, Seylan Developments PLC is classified as property, plant and equipment in the Group Financial Statements.

29.3 Fully-depreciated assets

The initial cost of fully-depreciated property, plant and equipment and intangible assets (software and software related) as at 31 December which are still in use as follows:

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Computer equipment	2,356,592	2,320,346	2,356,592	2,320,975
Software and software related	1,808,480	1,751,681	1,809,109	1,751,681
Office machines and equipment	669,539	583,619	669,539	583,619
Fixtures, fittings and furniture	863,052	711,039	865,985	711,039
Motor vehicles	54,984	62,622	54,984	62,622
Leased assets	48,397	47,976	48,397	47,976
Total fully-depreciated assets	5,801,044	5,477,283	5,804,606	5,477,912

29.4 Freehold/leasehold land and buildings

The Bank has revalued its land and buildings and the valuations were made on the basis of market values for existing use. Such valuations were carried out by professional independent valuers. The effective date of the revaluation is 31 December 2016.

The book values of the properties were adjusted to the revalued amount and the resultant surplus or deficit was transferred to the Revaluation Reserve or Income Statements respectively.

Address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Extent	Cost/valuation			
				Land as at 31.12.2017 LKR '000	Building as at 31.12.2017 LKR '000	Accumulated depreciation as at 31.12.2017 LKR '000	Net book value as at 31.12.2017 LKR '000
29.4.1 Freehold land and buildings							
Mt. Lavinia 198, Galle Road, Ratmalana	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 3,250,000 p.p. LKR 4,000 p.sq.ft. 25%	36.30P	117,975	22,025	1,053	138,947
Badulla 10, Cocowatte Road, Badulla	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 2,000,000 p.p. LKR 4,500 p.sq.ft. 10%	1R 5.50P	92,800	23,700	824	115,676
Kochchikade 66, Chilaw Road, Kochchikade	Market comparable method Price per perch for land Price per square foot for building	LKR 1,850,000 p.p. LKR 2,400 to LKR 4,250 p.sq.ft.	8.00P	13,875	15,375	726	28,524
Avissawella 71, Ratnapura Road, Avissawella	Market comparable method Price per perch for land Price per square foot for building	LKR 3,250,000 p.p. LKR 3,750 p.sq.ft.	18.92P	61,490	21,010	1,111	81,389
Grandpass 401, Prince of Wales Avenue, Colombo 14	Market comparable method Price per perch for land Price per square foot for building	LKR 3,500,000 p.p. LKR 850 to LKR 2,200 p.sq.ft.	1R 6.00P	161,000	18,300	1,026	178,274
Bandarawela Badulla Road, Bandarawela	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 700,000 to LKR 3,000,000 p.p. LKR 3,800 to LKR 4,500 p.sq.ft. 10%	27.01P	72,267	27,733	1,473	98,527
Sarikkamulla 97, Old Galle Road, Sarikkamulla	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 300,000 to LKR 800,000 p.p. LKR 3,500 p.sq.ft. 20%	11.56P	7,468	6,032	225	13,275

Address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Extent	Cost/valuation			
				Land as at	Building as at	Accumulated depreciation as at	Net book value as at
				31.12.2017 LKR '000	31.12.2017 LKR '000	31.12.2017 LKR '000	31.12.2017 LKR '000
Tissamaharama 547, Debarawewa, Tissamaharama	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 400,000 to LKR 650,000 p.p. LKR 3,000 p.sq.ft. 40%	1R 1.50P	21,600	3,400	165	24,835
Raddolugama 171, National Housing Scheme, Raddolugama	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 750,000 p.p. LKR 4,000 p.sq.ft. 15%	12.08P	9,600	11,200	517	20,283
Nuwara Eliya 61, Haddon Hill Road, Nuwara Eliya	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 800,000 p.p. LKR 3,500 to LKR 6,000 p.sq.ft. 27.5% to 40%	1R 36.00P	60,000	21,000	1,247	79,753
Marandagahamula 150, Divulapitiya Road, Marandagahamula	Market comparable method Price per perch for land Price per square foot for building	LKR 225,000 to LKR 325,000 p.p. LKR 500 to LKR 1,600 p.sq.ft.	35.00P	9,875	8,275	378	17,772
Anuradhapura 23-A1, Anuradhapura	Market comparable method Price per perch for land Price per square foot for building	LKR 700,000 p.p. LKR 800 p.sq.ft.	1R 3.65P	30,555	2,200	130	32,625
Embilipitiya 73, New Town Road, Embilipitiya	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 1,200,000 p.p. LKR 4,500 p.sq.ft. 30%	22.10P	23,520	29,480	1,296	51,704
Nugegoda 211, High Level Road, Nugegoda	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 1,000,000 to LKR 5,000,000 p.p. LKR 4,500 p.sq.ft. 15%	14.00P	72,000	31,300	1,192	102,108
Ratnapura 6, Goods Shed Road, Ratnapura	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 3,000,000 p.p. LKR 5,000 p.sq.ft. 40%	6.13P	13,980	10,520	407	24,093
Balangoda Pettigala Road, Balangoda	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 275,000 to LKR 325,000 p.p. LKR 2,000 p.sq.ft. 30%	3R 22.04P	42,811	3,626	140	46,297
Deal Place 2, Deal Place, Colombo 3	Market comparable method Price per perch for land	LKR 12,500,000 p.p.	19.00P	235,000	-	-	235,000
Gampola 44, Kandy Road, Gampola	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 3,000,000 p.p. LKR 750 to LKR 4,000 p.sq.ft. 15%	13.50P	40,500	24,500	886	64,114
Koggala 9, Export Processing Zone, Koggala	Depreciated replacement cost method Cost of construction per square foot for building Full life of the building Remaining life of the building	LKR 3,500 p.sq.ft. 60 years 45 years	20.00P	-	2,600	154	2,446
Negombo 115, Rajapaksa Broadway, Negombo	Market comparable method Price per perch for land Price per square foot for building Depreciation rate	LKR 2,750,000 p.p. LKR 1,900 to LKR 3,850 p.sq.ft. 15%	29.15P	67,045	18,805	573	85,277
Kandana 99, Station Road, Kandana	Market comparable method Price per perch for land Price per square foot for building	LKR 650,000 to LKR 1,000,000 p.p. LKR 1,250 p.sq.ft.	1A 1R 9.84P	140,756	7,993	253	148,496
Total freehold land and buildings – Bank				1,294,117	309,074	13,776	1,589,415

Address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Extent	Cost/valuation			
				Land as at	Building as at	Accumulated depreciation as at	Net book value as at
				31.12.2017 LKR '000	31.12.2017 LKR '000	31.12.2017 LKR '000	31.12.2017 LKR '000
Seylan Towers – East Tower							
90, Galle Road, Colombo 3	Investment method Estimated rent income per month per square foot for building	LKR 200 to LKR 210 p.sq.ft.		-	1,574,276	-	1,574,276
The property to be disposed to Bank's subsidiary (Currently classified as "assets held for sale" by the Bank)							
90, Galle Road, Colombo 3	Investment method Estimated rent income per month per square foot for building Years purchase	LKR 100 to LKR 275 p.sq.ft 18	37,416 sq.ft	-	934,000	33,457	900,543
Total freehold buildings – subsidiary				-	2,508,276	33,457	2,474,819
Total freehold land and buildings – Group				1,294,117	2,817,350	47,233	4,064,234

Description of the above valuation techniques together with narrative description on sensitivity of the fair value measurement to changes in significant unobservable inputs are given below:

Valuation technique	Significant unobservable valuation inputs	Sensitivity of the fair value measurement to inputs
Market comparable method		
This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land Price per square foot for building Depreciation rate for building	Estimated fair value would get increased/(decreased) if: Price per perch would get higher/(lower) Price per square foot would get higher/(lower) Depreciation rate for building would get lower/(higher)
Investment method		
This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently characterised by the real estate market.	Gross Annual Rentals Years of purchase	Estimated fair value would get increased/(decreased) if: Gross annual rentals would get higher/(lower) Years purchase would get higher/(lower)
Depreciated replacement cost method		
This method involves the capitalisation of the expected cost of construction at an appropriate remaining life of the building.	Cost of construction Full life of building Remaining life of building	Estimated fair value would get increased/(decreased) if: Cost of construction would get higher/(lower)

Address	Extent	2017				Carrying value LKR '000
		Cost – land	Cost – buildings	Accumulated depreciation – land	Accumulated depreciation – buildings	
		LKR '000	LKR '000	LKR '000	LKR '000	
29.4.2 Leasehold land and buildings						
Nuwara Eliya						
48 & 48/1, Park Road, Nuwara Eliya	20.28 P	22,603	19,580	3,351	4,178	34,654
Hingurakgoda						
13 & 14, Airport Road, Hingurakgoda	15.84 P	4,356	8,544	2,407	4,722	5,771
Total leasehold land and buildings – Bank		26,959	28,124	5,758	8,900	40,425
Seylan Tower Land – East Tower						
90, Galle Road, Colombo 3		640,549	–	99,628	–	540,921
Total leasehold land – subsidiary		640,549	–	99,628	–	540,921
Total leasehold land and buildings – Group		667,508	28,124	105,386	8,900	581,346
Total land and buildings – Group		1,961,625	2,845,474	105,386	56,133	4,645,580

	Cost/ valuation LKR '000	Accumulated depreciation LKR '000	Market value/ net book value LKR '000
29.5 Summary of freehold/ leasehold land and buildings			
Freehold land	1,294,117	–	1,294,117
Freehold buildings	309,074	13,776	295,298
Total freehold land and buildings – Bank	1,603,191	13,776	1,589,415
Leasehold land	26,959	5,758	21,201
Leasehold buildings	28,124	8,900	19,224
Total leasehold land and buildings – Bank	55,083	14,658	40,425
Total land and buildings – Bank	1,658,274	28,434	1,629,840
Freehold buildings – subsidiary	1,574,276	–	1,574,276
Leasehold land – subsidiary	640,549	99,628	540,921
Total land and buildings – subsidiary	2,214,825	99,628	2,115,197
Freehold buildings – classified as "assets held for sale"	934,000	33,457	900,543
Total land and buildings – Group	4,807,099	161,519	4,645,580

29.6 Revaluation – freehold land and buildings

The fair values of land and buildings were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and the category of property being valued. The fair value measurements for all of the freehold land and buildings have been categorised as Level 3 fair value measurements.

The Bank's entire freehold land and buildings were revalued in the year 2016, valuation was made on the basis of open market value and the revaluation surplus or deficit was transferred to the Revaluation Reserve/Income Statements respectively.

If freehold land and buildings were stated at historical cost, the amounts would have been as follows:

Properties revalued	Bank					
	2017			2016		
	Land LKR '000	Buildings LKR '000	Total LKR '000	Land LKR '000	Buildings LKR '000	Total LKR '000
Cost	465,586	132,139	597,725	465,586	926,383	1,391,969
Accumulated depreciation	–	(44,344)	(44,344)	–	(279,303)	(279,303)
Carrying value	465,586	87,795	553,381	465,586	647,080	1,112,666

Property at 90, Galle Road, Colombo 3, was transferred to assets held for sale in 2017.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
30. Leasehold rights				
Cost/Valuation				
Balance as at 1 January	55,083	55,083	695,632	695,632
Balance as at 31 December	55,083	55,083	695,632	695,632
Accumulated depreciation				
Balance as at 1 January	12,713	10,767	104,931	95,575
Charge for the year	1,945	1,946	9,355	9,356
Balance as at 31 December	14,658	12,713	114,286	104,931
Carrying amount	40,425	42,370	581,346	590,701

Bank – Leasehold property consists of the property situated at Park Road, Nuwara Eliya acquired in the year 2001, and the property situated at Airport Road, Hingurakgoda acquired in 2010.

Seylan Developments PLC entered into a 99-year lease with the view to set up/conduct and operate a business for the construction of an office and apartment complex in the year 1992.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
31. Investment properties				
Cost				
Balance as at 1 January	–	–	1,128,223	1,356,489
Add: Additions during the year	–	–	7,538	360
Transferred from property, plant and equipment	–	–	–	7
Less: Transferred to assets held for sale*	–	–	–	(228,633)
Cost as at 31 December (Note 31.1)	–	–	1,135,761	1,128,223
Less: Provision for impairment	–	–	(71,462)	(71,462)
Cost less impairment as at 31 December	–	–	1,064,299	1,056,761
Accumulated depreciation				
Balance as at 1 January	–	–	202,683	195,107
Charge for the year	–	–	9,949	9,382
Transferred to assets held for sale*	–	–	–	(1,806)
Balance as at 31 December	–	–	212,632	202,683
Carrying value as at 31 December	–	–	851,667	854,078

* The properties at Union Place and Katharagama were transferred to assets held for sale at the carrying value in 2016.

Bank accounts its investment properties at cost and revalues these properties periodically on a systematic basis for disclosure purposes.

Address	Group			
	Extent	Date of valuation	Cost LKR '000	Market value LKR '000
31.1 Information of investment properties				
Seylan Towers – West Tower, 90, Galle Road, Colombo 3*	111,191sq.ft	31.12.2017	1,062,049	1,594,672
Moratuwa Lake Villas, St. Peter's Road, Moratuwa	0A 1R 05P	31.12.2017	3,361	2,925
Ja-Ela commercial complex**			70,351	–
Cost as at 31 December 2017			1,135,761	

* The rent income from the Seylan Towers-West Tower for the year 2017 is LKR 72.12 Mn. (2016 – LKR 59.63 Mn.).

** Full provision for impairment has been made.

Methods and assumptions used in the fair valuation of investment properties

Subsidiary – Seylan Developments PLC

Property	Name and qualifications of the valuer	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Seylan Towers – West Tower, 90, Galle Road, Colombo 3	Sunil Fernando & Associates (Pvt) Limited Chartered Valuation Surveyors	Investment basis of valuation and depreciated replacement value basis of valuation have been adopted. As the subject property is of two mix uses, commercial and residential, a prudent investor is expected to make his bid to purchase on two different yields based on two different risks attached to the commercial and residential uses of the property.	Valuation has used market rental (LKR 210.00 per sq.ft.) based on current market rental of comparable commercial property and has been adjusted to take cognisance of location of a central business district and peripherals.	Estimated fair value would increase if adopted market rental rates get higher.
			Rentals of two similar residential apartment buildings have been taken as comparable residential market rents (LKR 370,000.00 and LKR 420,000.00).	Reduction of market rents cause negative impact on estimated fair value.
			All risk rates for residential and commercial segment of the subject property has been taken at 4% and 6% respectively.	There is an inverse relationship between the estimated fair value and all risk rates.
			Current replacement cost of construction is estimated as LKR 20,000.00 per sq.ft.	Estimated fair value would increase if replacement cost gets higher.
			Full life of the building is taken as 99 years and the remaining life is taken as 70 years limiting them to the conditions in lease agreement.	Increase in lifetime of the building will result in to increase in the estimated fair value.
			Land value is taken at LKR 12,200,000.00 per perch	Estimated fair value would increase if the market value of the land get higher.

Property	Name and qualifications of the valuer	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Moratuwa Lake Villas – St. Peter's Road, Moratuwa	Sunil Fernando & Associates (Pvt) Limited Chartered Valuation Surveyors	The valuation based on: – quoted prices in an active market – observable inputs such as ARR, cost of sale, interest rates and cost of construction – the interest rate for capitalisation derived from the market sector and the risk yield a third-party market participant accepts for such an investment.	The available evidence of land values in the locality was considered.	Estimated fair value would increase if the market value of the land gets higher.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
32. Intangible assets				
Software and software related				
Cost				
Balance as at 1 January	2,237,532	2,149,107	2,237,532	2,149,107
Additions for the year	193,775	88,456	193,775	88,456
Write-offs during the year	–	(31)	–	(31)
Balance as at 31 December	2,431,307	2,237,532	2,431,307	2,237,532
Accumulated amortisation				
Balance as at 1 January	1,975,420	1,899,217	1,975,420	1,899,217
Amortisation for the year	92,436	76,234	92,436	76,234
Write-offs during the year	–	(31)	–	(31)
Balance as at 31 December	2,067,856	1,975,420	2,067,856	1,975,420
Carrying amount	363,451	262,112	363,451	262,112

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
33. Deferred tax assets/(liabilities)				
Balance as at 1 January	(11,874)	(336,102)	(70,959)	(384,771)
Recognised in the profit or loss				
Charge for the year (Note 15.1)	(214,787)	(129,174)	(235,857)	(132,826)
Recognised in other comprehensive income				
Effect on revaluation of property, plant and equipment – including (Note 44.2)	–	(3,718)	7,905	(10,482)
Revaluation surplus on land (Note 44.2)*	(231,989)	–	(231,989)	–
Effect on net fair value losses/(gains) on available-for-sale financial assets (Note 44.4)	(900,394)	457,120	(900,394)	457,120
Balance as at 31 December (Notes 33.1 and 33.2)	(1,359,044)	(11,874)	(1,431,294)	(70,959)

Group has considered tax rate at 28% for deferred taxation.

*The Bank has considered the land as capital assets in terms of requirements of Inland Revenue Act No. 24 of 2017 which is effective from 1 April 2018. Accordingly, the deferred tax liability has been recognised on the revaluation surplus since it will be subject to income tax at the rate of 28% at the point of disposal.

	Bank			
	2017		2016	
	Temporary difference LKR '000	Tax LKR '000	Temporary difference LKR '000	Tax LKR '000
33.1 Analysis of deferred tax assets and liabilities				
Deferred tax – liabilities				
Property, plant and equipment	1,516,307	424,566	1,287,386	360,468
Lease rentals	2,716,026	760,487	2,115,829	592,432
Revaluation gain brought forward	72,818	20,389	72,818	20,389
Revaluation surplus on land	828,531	231,989	–	–
	5,133,682	1,437,431	3,476,033	973,289
Deferred tax – assets				
Leave encashment provision (Note 41.2)	164,180	45,970	236,408	66,194
Other provisions	172,675	48,349	266,425	74,599
Loss carried forward (Note 15.3)	227,998	63,839	–	–
Reversal of revaluation loss on property, plant and equipment	20,911	5,855	20,911	5,855
Loss/(gain) on available-for-sale reserve	(305,811)	(85,626)	2,909,882	814,767
	279,953	78,387	3,433,626	961,415
Net deferred tax liabilities (Note 33.1.1)	(4,853,729)	(1,359,044)	(42,407)	(11,874)

	Bank							
	2017				2016			
	Balance as at 1 January LKR '000	Recognised in profit or loss LKR '000	Recognised in other comprehensive income LKR '000	Balance as at 31 December LKR '000	Balance as at 1 January LKR '000	Recognised in profit or loss LKR '000	Recognised in other comprehensive income LKR '000	Balance as at 31 December LKR '000
33.1.1 Movement in temporary differences								
Deferred tax – liabilities								
Property, plant and equipment	1,287,386	228,921	–	1,516,307	1,090,247	197,139	–	1,287,386
Lease rentals	2,115,829	600,197	–	2,716,026	2,230,391	(114,562)	–	2,115,829
Revaluation gain brought forward	72,818	–	–	72,818	59,539	–	13,279	72,818
Revaluation surplus on land	–	–	828,531	828,531	–	–	–	–
	3,476,033	829,118	828,531	5,133,682	3,380,177	82,577	13,279	3,476,033
Deferred tax – assets								
Leave encashment provision	236,408	(72,228)	–	164,180	249,849	(13,441)	–	236,408
Other provisions	266,425	(93,750)	–	172,675	270,401	(3,976)	–	266,425
Tax losses carried forward	–	227,998	–	227,998	320,677	(320,677)	–	–
Reversal of revaluation loss on property, plant and equipment	20,911	–	–	20,911	61,575	(40,664)	–	20,911
Loss/(gain) on available-for-sale reserve	2,909,882	–	(3,215,693)	(305,811)	1,277,310	–	1,632,572	2,909,882
	3,433,626	62,020	(3,215,693)	279,953	2,179,812	(378,758)	1,632,572	3,433,626
Net deferred tax assets/(liabilities)	(42,407)	(767,098)	(4,044,224)	(4,853,729)	(1,200,365)	(461,335)	1,619,293	(42,407)

	Group			
	2017		2016	
	Temporary difference LKR '000	Tax LKR '000	Temporary difference LKR '000	Tax LKR '000
33.2 Analysis of deferred tax assets and liabilities				
Deferred tax – liabilities				
Property, plant and equipment	1,576,877	441,526	1,338,839	374,875
Lease rentals	2,716,026	760,487	2,115,829	592,432
Revaluation gain brought forward	1,047,378	293,266	1,075,611	301,171
Revaluation surplus on land	828,531	231,989	–	–
	6,168,812	1,727,268	4,530,279	1,268,478
Deferred tax – assets				
Leave encashment provision (Note 41.2)	164,180	45,970	236,408	66,194
Other provisions	172,675	48,350	266,425	74,599
Tax losses carried forward (Note 15.3)	1,005,092	281,426	843,229	236,104
Reversal of revaluation loss on property, plant and equipment	20,911	5,855	20,911	5,855
Loss/(gain) on available-for-sale reserve	(305,811)	(85,627)	2,909,882	814,767
	1,057,047	295,974	4,276,855	1,197,519
Net deferred tax liabilities (Note 33.2.1)	(5,111,765)	(1,431,294)	(253,424)	(70,959)

	Group							
	2017				2016			
	Balance as at 1 January LKR '000	Recognised in profit or loss LKR '000	Recognised in other comprehensive income LKR '000	Balance as at 31 December LKR '000	Balance as at 1 January LKR '000	Recognised in profit or loss LKR '000	Recognised in other comprehensive income LKR '000	Balance as at 31 December LKR '000
33.2.1 Movement in temporary differences								
Deferred tax – liabilities								
Property, plant and equipment	1,338,839	238,038	–	1,576,877	1,118,073	220,766	–	1,338,839
Lease rentals	2,115,829	600,197	–	2,716,026	2,230,391	(114,562)	–	2,115,829
Revaluation gain brought forward	1,075,611	–	(28,233)	1,047,378	1,038,176	–	37,435	1,075,611
Revaluation surplus on land	–	–	828,531	828,531	–	–	–	–
	4,530,279	838,235	800,298	6,168,812	4,386,640	106,204	37,435	4,530,279
Deferred tax – assets								
Leave encashment provision	236,408	(72,228)	–	164,180	249,849	(13,441)	–	236,408
Other provisions	266,425	(93,750)	–	172,675	270,401	(3,976)	–	266,425
Tax losses carried forward	843,229	161,863	–	1,005,092	1,153,319	(310,090)	–	843,229
Reversal of revaluation loss on property, plant and equipment	20,911	–	–	20,911	61,575	(40,664)	–	20,911
Loss/(gain) on available-for-sale reserve	2,909,882	–	(3,215,693)	(305,811)	1,277,310	–	1,632,572	2,909,882
	4,276,855	(4,115)	(3,215,693)	1,057,047	3,012,454	(368,171)	1,632,572	4,276,855
Net deferred tax assets/(liabilities)	(253,424)	(842,350)	(4,015,991)	(5,111,765)	(1,374,186)	(474,375)	1,595,137	(253,424)

Defined benefit obligation (gratuity provision)

The Bank has a separate Gratuity Trust Fund which was approved by the Commissioner General of Inland Revenue. As per the approval, Bank could transfer gratuity provision of 62.5% of the last month's salary of the year and deduct from the tax computation. Therefore no temporary differences arise on the gratuity obligation.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
34. Assets held for sale				
Balance as at 1 January	-	-	226,827	-
Add: Transferred from property, plant and equipment/ investment property* (Note 34.1)	900,543	-	-	226,827
Less: Disposals during the year** (Note 34.2)	-	-	(226,827)	-
Balance as at 31 December	900,543	-	-	226,827

* The property at 90, Galle Road, Colombo 03 has been transferred from property, plant and equipment at the carrying value during the year since the Bank decided to dispose the same to its subsidiary, Seylan Developments PLC.

** The properties at Union Place and Kataragama which were transferred from investment properties in 2016, have been disposed in 2017 (Note 34.2).

Address	Bank				
	Extent	Date of valuation	Cost LKR '000	Accumulated depreciation LKR '000	Carrying value LKR '000
34.1 Assets held for sale (Bank)					
90, Galle Road, Colombo 3	37,416 sq. ft.	31.12.2016	934,000	33,457	900,543
			934,000	33,457	900,543

34.2 Gain on disposal of assets held for sale (Group) – 2017

The properties at Union Place and Kataragama have been disposed during the year and the gain on disposal is as follows:

Address	Carrying value LKR '000	Sales proceeds net of costs to sell LKR '000	Gain on disposal LKR '000
257, Union Place, Colombo 2	204,535	725,664	521,129
Parana Kanda Road, Detagamuwa, Kataragama	22,292	22,500	208
	226,827	748,164	521,337

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
35. Other assets				
Deposits and prepayments	1,287,250	1,159,859	1,303,995	1,174,957
Clearing house balance	2,526,194	3,218,009	2,526,194	3,215,445
Inventories	521,674	175,472	525,371	179,161
Sundry debtors	271,018	331,816	271,018	331,816
Other receivables	695,683	854,229	695,683	854,229
Due from trust companies	114,466	113,777	114,466	113,777
Prepaid staff cost	1,750,047	2,270,875	1,750,386	2,271,179
Other debtors	433,049	399,473	449,906	421,618
Total other assets	7,599,381	8,523,510	7,637,019	8,562,182

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
36. Due to banks				
Call money borrowings	12,510,751	16,716,298	12,510,751	16,716,298
Refinance borrowings	1,739,152	663,121	1,739,152	663,121
Borrowings from local banks	102,275	131,854	102,275	131,854
Borrowings from foreign banks	1,096,333	217,020	1,096,333	217,020
Borrowings from development finance institutions	11,604,461	-	11,604,461	-
Total due to banks	27,052,972	17,728,293	27,052,972	17,728,293

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
37. Customer deposits				
Total customer deposits	307,098,902	273,456,344	307,098,902	273,456,344
37.1 Analysis of customer deposits				
37.1.1 By product				
Local currency				
Demand deposits	15,421,548	18,436,538	15,421,548	18,436,538
Savings deposits	65,596,837	57,385,770	65,596,837	57,385,770
Time deposits	188,861,741	166,813,373	188,861,741	166,813,373
Certificates of deposit	3,438,619	4,068,366	3,438,619	4,068,366
Total customer deposits – local currency	273,318,745	246,704,047	273,318,745	246,704,047
Foreign currency				
Demand deposits	4,581,517	3,210,023	4,581,517	3,210,023
Savings deposits	10,207,465	9,894,796	10,207,465	9,894,796
Time deposits	18,991,175	13,647,478	18,991,175	13,647,478
Total customer deposits – foreign currency	33,780,157	26,752,297	33,780,157	26,752,297
Total customer deposits by product	307,098,902	273,456,344	307,098,902	273,456,344
37.1.2 By currency				
Sri Lankan Rupee	273,318,745	246,704,047	273,318,745	246,704,047
United States Dollar	28,218,069	22,962,278	28,218,069	22,962,278
Great Britain Pound	2,645,587	1,585,840	2,645,587	1,585,840
Australian Dollar	1,253,952	1,141,027	1,253,952	1,141,027
Euro	1,188,230	733,223	1,188,230	733,223
Canadian Dollar	227,100	175,371	227,100	175,371
Japanese Yen	96,950	51,145	96,950	51,145
Singapore Dollar	63,820	46,780	63,820	46,780
Swiss Franc	54,843	26,202	54,843	26,202
New Zealand Dollar	12,423	16,747	12,423	16,747
Norwegian Kroner	12,230	438	12,230	438
Danish Krone	5,436	4,674	5,436	4,674
Swedish Kroner	1,228	7,369	1,228	7,369
Hong Kong Dollar	222	1,196	222	1,196
Chinese Renminbi	67	7	67	7
Total customer deposits by currency	307,098,902	273,456,344	307,098,902	273,456,344
37.1.3 By customer category				
Banks	3,759,271	1,568,665	3,759,271	1,568,665
Finance companies	5,631,683	2,580,392	5,631,683	2,580,392
Other customers	297,707,948	269,307,287	297,707,948	269,307,287
Total customer deposits by customer category	307,098,902	273,456,344	307,098,902	273,456,344

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
37.1.4 By maturity				
Due within one year	284,343,600	253,631,683	284,343,600	253,631,683
Due after one year	22,755,302	19,824,661	22,755,302	19,824,661
Total customer deposits by maturity	307,098,902	273,456,344	307,098,902	273,456,344

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
38. Other borrowings				
Refinance borrowings – other institutions (Coconut Cultivation Board)	22,396	21,249	22,396	21,249
	22,396	21,249	22,396	21,249

	Bank	
	2017 LKR '000	2016 LKR '000
39. Group balances payable		
Seylan Developments PLC	1,145,110	226,351
	1,145,110	226,351

Issue	Interest rate	Colombo Stock Exchange Listing	Interest payable frequency	Allotment date/Period	Maturity date	Bank/Group	
						Amortised cost	
						2017 LKR '000	2016 LKR '000
40. Debentures							
40.1 Fixed rate debenture							
2013-2018	15.50% p.a.	Listed	Annually	14.02.2013 – 22.02.2013	21.02.2018	1,235,912	1,235,566
2013-2018	15.00% p.a.	Listed	Semi-annually	14.02.2013 – 22.02.2013	21.02.2018	832,104	832,104
2013-2018	14.50% p.a.	Listed	Monthly	14.02.2013 – 22.02.2013	21.02.2018	66,332	66,332
2014-2018	8.00% p.a.	Listed	Semi-annually	23.12.2014	22.12.2018	463,192	463,189
2014-2019	8.35% p.a.	Listed	Semi-annually	23.12.2014	22.12.2019	30	30
2014-2019	8.60% p.a.	Listed	Annually	23.12.2014	22.12.2019	1,870,478	1,870,478
2014-2020	8.60% p.a.	Listed	Semi-annually	23.12.2014	22.12.2020	2,405,972	2,405,972
2014-2020	8.75% p.a.	Listed	Annually	23.12.2014	22.12.2020	305,833	305,833
2016-2021	13.00% p.a.	Listed	Semi-annually	15.07.2016	14.07.2021	1,814,709	1,814,678
2016-2023	13.75% p.a.	Listed	Semi-annually	15.07.2016	14.07.2023	3,482,063	3,482,063
Total fixed rate debentures						12,476,625	12,476,245
40.2 Floating rate debentures							
2016-2021	Six months Treasury Bill rate +1.5% p.a.	Listed	Semi-annually	15.07.2016	14.07.2021	17,400	17,400
Total floating rate debentures						17,400	17,400
Total debentures						12,494,025	12,493,645

40.3 Utilisation of funds raised through debentures issued in 2016

Objective number	Objective as per prospectus	Proposed date of utilisation as per prospectus	Amount allocated as per prospectus in LKR	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amount utilised in LKR (B)	% utilised against allocation (B/A)	Details, if not fully utilised
1.	To further improve the Capital Adequacy of the Bank's Balance Sheet, by strengthening its Tier II capital subject to Central Bank of Sri Lanka's approval.	With effect from close of issue	5.0 Bn.	5.0 Bn.	100	5.0 Bn.	100	N/A
2.	To utilise the funds raised to finance expansion by increasing the lending portfolio of the Bank.	Within 12 months from the date of the allotment						
3.	To further strengthen the funding mix of the Bank.	With effect from close of issue						
4.	To minimise the interest rate risk and the gap exposure in the Bank's asset/liability portfolio and to reduce maturity gaps in the Bank's Balance Sheet.	With effect from close of issue						

Fully utilised for the said objectives within the stipulated period

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
41. Other liabilities				
Accrued expenses	791,780	741,103	796,673	771,158
Margin accounts	966,992	879,037	966,992	879,037
Deposit funding accounts	2,462,653	3,009,095	2,462,653	3,009,095
Dividend payable	42,124	46,250	52,400	53,904
Provision for defined benefit obligations (net) (Note 41.1.1)	(498,460)	(344,234)	(506,380)	(352,564)
Sundry creditors	1,029,590	685,372	1,029,590	685,576
Value added tax and other statutory payables	348,534	723,617	340,159	719,106
Cheques payable	615,445	643,556	615,445	643,556
Leave encashment provision (Note 41.2)	164,180	236,408	164,180	236,408
Other creditors	598,721	868,757	672,036	927,572
Total other liabilities	6,521,559	7,488,961	6,593,748	7,572,848

41.1 Defined benefit obligations

The Bank pays half a month's salary (last drawn) for each completed year of service as gratuity for employees who have worked for more than five years at the time of retirement/resignation.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
41.1.1 The amount recognised in the statement of financial position				
Present value of defined benefit obligations – (Note 41.1.3)	1,237,690	1,170,323	1,244,738	1,176,156
Fair value of plan assets – (Note 41.1.4)	(1,736,150)	(1,514,557)	(1,751,118)	(1,528,720)
Provision for defined benefit obligations	(498,460)	(344,234)	(506,380)	(352,564)
41.1.2 Plan assets				
Balance with banks	19,181	28,989	19,230	42,418
Investment in Treasury Bills and Bonds	1,716,969	1,485,568	1,731,888	1,486,302
	1,736,150	1,514,557	1,751,118	1,528,720

Plan assets are held by an approved external gratuity trust fund.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
41.1.3 Movement in the present value of defined benefit obligations (PV DBO)				
Liability for defined benefit obligations as at 1 January	1,170,323	1,147,186	1,176,156	1,153,028
Current service cost	70,351	68,284	70,849	68,706
Interest cost	134,587	114,718	135,258	115,302
Actuarial gains on PV DBO	(66,601)	(66,157)	(65,930)	(66,892)
Benefits paid by the plan	(70,970)	(93,708)	(71,595)	(93,988)
Liability for defined benefit obligations as at 31 December	1,237,690	1,170,323	1,244,738	1,176,156
41.1.4 Movement in plan assets				
Fair value of plan assets as at 1 January	1,514,557	1,346,673	1,528,720	1,360,020
Expected return on plan assets	174,174	134,667	175,803	136,001
Contribution paid into plan	156,808	138,527	156,808	138,527
Benefits paid by the plan	(70,970)	(93,708)	(71,595)	(93,988)
Actuarial loss on plan assets	(38,419)	(11,602)	(38,618)	(11,840)
Fair value of plan assets as at 31 December	1,736,150	1,514,557	1,751,118	1,528,720
41.1.5 Unrecognised actuarial (gain) or loss				
Actuarial gain for year – obligation	(66,601)	(66,157)	(65,930)	(66,892)
Actuarial loss for year – plan assets	38,419	11,602	38,618	11,840
Actuarial gain recognised in other comprehensive income	(28,182)	(54,555)	(27,312)	(55,052)
41.1.6 Amount recognised in the income statement				
Current service cost	70,351	68,284	70,849	68,706
Interest cost	134,587	114,718	135,258	115,302
Expected return on plan assets	(174,174)	(134,667)	(175,803)	(136,001)
Amount recognised in the income statement (Note 14)	30,764	48,335	30,304	48,007
41.1.7 Amount recognised in other comprehensive income				
Actuarial gain recognised in the year	28,182	54,555	27,312	55,052
Amount recognised in the other comprehensive income	28,182	54,555	27,312	55,052

41.1.8 Actuarial assumptions

		Bank	
		2017	2016
Demographic assumptions			
Mortality in service		A 67/70 Mortality table issued by the Institute of Actuaries London	A 67/70 Mortality table issued by the Institute of Actuaries London
Retirement age	Bank	57 Years	55 Years
	Subsidiary	55 Years	55 Years
Financial assumptions			
Discount rate		11.00%	11.50%
Salary increment		1st year – 8%	1st year – 12% (including 2% increment)
		2nd year – 8%	2nd year – 10% (including 2% increment)
		3rd year – 8%	3rd year – 10% (including 2% increment)
		and thereafter 3%, 3%, 10% per annum.	and thereafter 3%, 3%, 10% per annum.
		Next increment due on 1 January 2018	Next increment due on 1 January 2017

41.1.9 Sensitivity of assumptions employed in actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the Income Statement and employment benefit obligation for the year.

Bank

		2017	
Increase/(decrease) in discount rate %	Increase/(decrease) in salary increment rate %	Sensitivity effect on income statement increase/(reduction) in charge for the year LKR '000	Sensitivity effect on employment benefit obligation increase/(decrease) in the liability LKR '000
1	**	(95,194)	(95,194)
(1)	**	107,642	107,642
*	1	117,860	117,860
*	(1)	(105,279)	(105,279)

* Discount rate is fixed at 11%.

** Salary increment rates 2018 - 8%, 2019 - 8%, 2020 - 8%, 2021 - 3%, 2022 - 3% and 2023 - 10%.

Subsidiary

		2017	
Increase/(decrease) in discount rate %	Increase/(decrease) in salary increment rate %	Sensitivity effect on income statement increase/(reduction) in charge for the year LKR '000	Sensitivity effect on employment benefit obligation increase/(decrease) in the liability LKR '000
1	**	(401)	(401)
(1)	**	442	442
*	1	495	495
*	(1)	(454)	(454)

* Discount rate is fixed at 11%.

** Salary increment rate 6% and thereafter 5%.

41.1.10 Maturity profile of the defined benefit obligation

Bank

Future working life time	Defined benefit obligation LKR '000
Within next 12 months	60,857
Between 1-2 years	157,898
Between 2-5 years	190,485
Between 5-10 years	392,191
Beyond 10 years	436,259
Total	1,237,690
Weighted average duration of defined benefit obligation	9.01 Years

Subsidiary

Future working life time	Defined benefit obligation LKR '000
Within next 12 months	1,333
Between 1-2 years	696
Between 2-5 years	1,044
Between 5-10 years	2,577
Beyond 10 Years	1,398
Total	7,048
Weighted average duration of defined benefit obligation	6.54 Years

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
41.2 Leave encashment provision				
Balance as at 1 January	236,408	249,849	236,408	249,849
Leave encashment during the year	(140,112)	-	(140,112)	-
Amount charged/(reversed) to income statement during the year	67,884	(13,441)	67,884	(13,441)
Balance as at 31 December	164,180	236,408	164,180	236,408

The Bank has made a payment in lieu of unutilised leave available in excess of 45 days up to the maximum of 90 days for all employees .

41.2.1 Actuarial assumptions

	Bank	
	2017	2016
Demographic assumptions		
Mortality in service	A 67/70 Mortality table issued by the Institute of Actuaries London	A 67/70 Mortality table issued by the Institute of Actuaries London
Retirement age	57 Years	55 Years
Financial assumptions		
Discount rate	11.00%	11.50%
Salary increment	1st year – 8%	1st year – 12% (including 2% increment)
	2nd year – 8%	2nd year – 10% (including 2% increment)
	3rd year – 8%	3rd year – 10% (including 2% increment)
	and thereafter 3%, 3%, 10% per annum. Next increment due on 1 January 2018	and thereafter 3%, 3%, 10% per annum. Next increment due on 1 January 2017

41.2.2 Sensitivity of assumptions employed in actuarial valuation

Increase/(decrease) in discount rate	Increase/(decrease) in salary increment rate	Bank	
		2017	
%	%	Sensitivity effect on income statement increase/(reduction) in charge for the year LKR '000	Sensitivity effect on employment benefit obligation increase/(decrease) in the liability LKR '000
1	**	(13,426)	(13,426)
(1)	**	15,362	15,362
*	1	16,791	16,791
*	(1)	(14,816)	(14,816)

* Discount rate is fixed at 11%.

** Salary increment rates 2018 - 8%, 2019 - 8%, 2020 - 8%, 2021 - 3%, 2022 - 3% and 2023 - 10%.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
42. Stated capital				
Ordinary shares – voting (Note 42.1)	7,319,076	6,962,722	7,319,076	6,962,722
Ordinary shares – non-voting (Note 42. 2)	3,909,193	3,567,002	3,909,193	3,567,002
Total stated capital	11,228,269	10,529,724	11,228,269	10,529,724
42.1 Ordinary shares – voting				
Balance as at 1 January	6,962,722	6,962,722	6,962,722	6,962,722
Issued during the year (scrip dividend) – 3,636,268 ordinary shares of LKR 98.00 each	356,354	–	356,354	–
179,613,669 Ordinary shares – voting (33,560,000 shares of LKR 10.00 each, 4,000,000 shares of LKR 25.00 each, 92,440,000 shares of LKR 35.00 each, 2,644,068 shares of LKR 59.00 each, 43,333,333 shares of LKR 75.00 each, 3,636,268 shares of LKR 98.00 each and net of issue expenses LKR 114,277,753.00)	7,319,076	6,962,722	7,319,076	6,962,722
42.2 Ordinary shares – non-voting				
Balance as at 1 January	3,567,002	3,567,002	3,567,002	3,567,002
Issued during the year (scrip dividend) – 5,859,428 ordinary shares of LKR 58.40 each	342,191	–	342,191	–
174,842,437 Ordinary shares – non-voting (83,560,000 shares of LKR 12.50 each, 40,000,000 shares of LKR 25.00 each, 45,423,009 shares of LKR 35.00 each, 5,859,428 shares of LKR 58.40 each and net of issue expenses LKR 67,302,925.00)	3,909,193	3,567,002	3,909,193	3,567,002

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
43. Statutory reserve fund				
Balance as at 1 January	1,387,964	1,187,441	1,387,964	1,187,441
Transferred during the year*	221,520	200,523	221,520	200,523
Balance as at 31 December	1,609,484	1,387,964	1,609,484	1,387,964

* 5% of net profit after tax.

Statutory Reserve Fund represents the statutory requirement in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
44. Other reserves				
Capital reserve (Note 44.1)	418,021	418,021	673,234	673,234
Revaluation reserve (Note 44.2)	1,242,493	1,474,482	1,967,727	2,214,050
General reserve (Note 44.3)	33,787	33,787	33,787	33,787
Available-for-sale reserve (Note 44.4)	945,408	(1,691,584)	945,496	(1,693,065)
Cash flow hedge reserve (Note 22.2.1)	(7,366)	–	(7,366)	–
Investment fund reserve (Note 44.5)	1,557,803	1,569,655	1,557,803	1,569,655
Total other reserves	4,190,146	1,804,361	5,170,681	2,797,661
44.1 Movement in capital reserve				
Balance as at 1 January	418,021	418,021	673,234	673,234
Balance as at 31 December	418,021	418,021	673,234	673,234

Bank – Consists of the Debenture Redemption Reserve Fund of LKR 400 Mn. transferred to capital reserve in 2004. Debenture Redemption Reserve Fund was created for the redemption of five year Debentures amounting to LKR 400 Mn. issued in November 1999. Balance consisting of LKR 18 Mn. was transferred to capital reserve in 1991.

Subsidiary – Capital Redemption Reserve Fund, which was created at the time of redeeming the preference shares of Seylan Developments PLC (transferred to capital reserve in 2011).

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
44.2 Movement in revaluation reserve				
Balance as at 1 January	1,474,482	651,483	2,214,050	1,378,783
Surplus/(deficit) on revaluation during the year	-	826,717	(28,234)	851,052
Transferred to non-controlling interest	-	-	5,995	(5,131)
Deferred tax impact on revaluation (surplus)/deficit during the year (Note 33)	-	(3,718)	7,905	(10,482)
Deferred tax impact on revaluation surplus of land (Note 33)	(231,989)	-	(231,989)	-
Transferred to retained earnings	-	-	-	(50)
Transferred to others	-	-	-	(122)
Balance as at 31 December	1,242,493	1,474,482	1,967,727	2,214,050

In addition to the Bank's revaluation reserve, Group includes the surplus on revaluation of property, plant and equipment of the subsidiary.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
44.3 Movement in general reserve				
Balance as at 1 January	33,787	33,787	33,787	33,787
Balance as at 31 December	33,787	33,787	33,787	33,787

Consist of LKR 25 Mn. transferred in 1995 to general reserve, LKR 2.7 Mn. transferred from bad debts reserve and LKR 6 Mn. transferred from contingency reserve in 2002 to general reserve.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
44.4 Movement in available-for-sale reserve				
Balance as at 1 January	(1,691,584)	(468,826)	(1,693,065)	(469,879)
Net fair value gain/(loss) during the year	3,537,386	(1,679,878)	3,539,611	(1,680,487)
Transferred to non-controlling interest	-	-	(656)	181
Deferred tax impact on net fair value gain/(loss) (Note 33)*	(900,394)	457,120	(900,394)	457,120
Balance as at 31 December	945,408	(1,691,584)	945,496	(1,693,065)

* Deferred tax on available-for-sale financial assets.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
44.5 Movement in investment fund reserve				
Balance as at 1 January	1,569,655	1,578,381	1,569,655	1,578,381
Transferred to retained earnings	(11,852)	(8,726)	(11,852)	(8,726)
Balance as at 31 December	1,557,803	1,569,655	1,557,803	1,569,655

As per the Value Added Tax (Amendment) Act No. 09 of 2011 and Inland Revenue (Amendment) Act No. 22 of 2011, Bank transferred 8% on value addition attributable to financial services and 5% of taxable profits, from retained earnings to investment fund reserve with effect from 1 January 2011. The requirement of this transfer ceased with effect from 1 October 2014.

Transfers to the investment fund reserve	LKR '000
8% on the value addition attributable to financial services	1,257,105
5% of taxable profits	409,598
	1,666,703

Utilisation of investment fund reserve

Qualifying investments

Long-term Government Securities with maturity period over 7 years	Maturity value LKR	Date of maturity	Interest rate %
Treasury Bond	150,000,000	15.08.2018	7.50
Treasury Bond	100,000,000	05.01.2019	8.50
Treasury Bond	45,100,000	06.01.2020	8.00
Treasury Bond	347,600,000	01.08.2020	6.20
Treasury Bond	519,000,000	01.05.2021	9.00
Treasury Bond	290,000,000	01.01.2022	8.00
Treasury Bond	80,000,000	01.07.2022	11.20
Treasury Bond	230,000,000	01.07.2028	9.00
Total investment in Government Securities	1,761,700,000		

Qualifying loans	Loans granted Nos.	Amount outstanding LKR	Tenure of the loan in years	Interest rate %
Purpose				
Construction of hotels and for related purpose	1	13,816,841	7	5-year Treasury Bond rate + 2%
Construction of hotels and for related purpose	1	51,874,000	10	5-year Treasury Bond rate + 2%
Total qualifying loans		65,690,841		
Total investment in Government Securities and qualifying loans		1,827,390,841		

45. Commitments and contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
45.1 Commitments				
Undrawn credit lines	47,467,028	24,438,704	47,467,028	24,438,704
Capital commitments (Note 47.1)	572,802	472,655	573,666	479,954
Total commitments	48,039,830	24,911,359	48,040,694	24,918,658
45.2 Contingencies				
Acceptances	11,119,663	9,112,816	11,119,663	9,112,816
Standby letters of credit	77,872	70,010	77,872	70,010
Guarantees	27,504,396	22,128,676	27,571,396	22,195,676
Documentary credit	10,309,764	5,660,428	10,309,764	5,660,428
Bills for collection	3,389,528	2,470,526	3,389,528	2,470,526
Forward exchange contracts (net)	(940,322)	(243,120)	(940,322)	(243,120)
Total contingencies	51,460,901	39,199,336	51,527,901	39,266,336
Total commitments and contingencies	99,500,731	64,110,695	99,568,595	64,184,994

45.3 Other Contingent Liabilities

The Bank has signed a Memorandum of Settlement (MoS) with Ceylon Bank Employees Union (CBEU) who represent the majority of current employees of the Bank to settle the payment of the enhanced gratuity by utilising proceeds expected from disposal of shares held by Share Trust companies upon compliance of the following conditions:

- There being no orders from court which would prevent the share owning companies and trustees from disposing of the shares and crediting the proceeds there from to the gratuity fund of the Bank for the payment of the enhanced gratuity; and
- The Bank being given a period of one year effective from 1 January 2018 to procure the disposal of the shares by the trustees and crediting the proceeds there from to the gratuity fund.

Further, the Bank has extended the proposal to its ex-employees who are eligible for enhanced gratuity.

The Bank has not recognised the enhanced gratuity liability in the Financial Statements as the settlement is contingent upon the completion of the above events and also making a reliable estimate of the financial impact is not practical as it would depend on number of uncertain variables that are attached to the above mentioned proposed settlement scheme.

46. Cases against the Bank

In the normal course of business, the Bank is involved in various types of litigation with borrowers or others who have asserted or threatened claims/counter claims against the Bank, including the following:

Civil Cases

1. CHC 157/2001 (1) – [SC (CHC) APP 01/10]

Plaintiff filed action against Seylan Bank for dishonouring a Guarantee issued by former BCCI Bank after Seylan Bank took over the local operations of BCCI. Judgement delivered in favour of the plaintiff. Seylan Bank has appealed. (Guarantee value USD 72,730.23 and USD 56,732.25) Appeal case to be mentioned on 3 May 2018.

2. HC CIVIL 137/99 (1) – (SC CHC 20/2007)

Plaintiffs filed the action to invalidate the appropriation of dividends paid by liquidator of BCCI. (Case value LKR 11,535,525.00) Judgement delivered in favour of the Bank. Plaintiffs have appealed to Supreme Court against the judgement. Case is fixed for Argument on 6 March 2018.

3. CHC 14/98 (1) – [SC (APP) CHC 26B/2005 and SC (APP) CHC 26A/2005]

Action filed claiming damages of LKR 111 Mn. for dishonouring cheques and a letter of credit. Judgement delivered against the Bank awarding LKR 2.5 Mn. as damages. Both the plaintiff and the Bank filed appeals against the said judgement. Both cases to be mentioned on 22 May 2018.

4. DC Ratnapura 23391/MR and HC (CIVIL) 159/06 (I)

Two actions filed claiming LKR 23,761,000.00 for wrongful takeover of property under Parate Action by Bank. Further trial on 7 June 2018 and 21 February 2018 respectively.

5. CHC 744/2010/MR – [SC (APP) 52/2012]

Plaintiff filed action claiming damages of LKR 10 Mn, alleging negligence of Bank due to credit card not being activated and thereby not being able to make payment.

Plaintiff's action dismissed and court allowed to proceed with the claim in reconvention. Plaintiff has appealed. Appeal is listed for Argument on 22 March 2018 (Case No. CHC 744/2010 laid by due to the Appeal).

6. CHC 559/10/MR

Plaintiff has claimed damages of LKR 5 Mn. stating that the Bank has wrongfully refused to issue US Dollars for travel purposes. Case is fixed for judgement on 16 March 2018.

7. DC Colombo DMR/1605/11

Action has been filed by the plaintiff on the basis of being the landlord of the former Savings and Travel Branch premises of Seylan Bank claiming LKR 2.5 Mn. for loss of revenue and LKR 1,814,871.00 as damages for delay in vacating the premises and LKR 75,000.00 as costs. Plaintiff deceased and substitution papers filed. Case is fixed for further Trial on 2 April 2018.

8. CHC 377/12 MR

Plaintiff filed action for negligence against a cheque fraud claiming LKR 5 Mn. as damages. Case is fixed for further Trial on 7 March 2018.

9. DC Ampara 356/Damages

The plaintiff who is an ex-staff member of the Bank filed action claiming damages of LKR 50 Mn. for wrongful termination from work, wrongful custody and remand, defamation and pain of mind. *Ex parte* judgement delivered in favour of the plaintiff on 20 June 2016. Inquiry on vacation of *ex parte* judgement is fixed for 5 March 2018.

10. CHC 157/2007/MR – [SC CHC (APP) 34/12]

Action filed against the Bank for collecting a forged cheque to an account of a client and for unjust enrichment claiming LKR 9.5 Mn. Judgement delivered in favour of the plaintiff. Bank has appealed to the Supreme Court against the judgement. Appeal is fixed for argument on 18 June 2018.

11. DC Colombo 17/99/CO – [SC (APP) 85A/2009]

Action filed by Hatton National Bank to nullify the Mortgage Bond executed in favour of Seylan Bank on a mortgaged property that has now been acquired by the Government under the provisions of "Revival of Underperforming Enterprises or Underutilised Assets" Act No. 43 of 2011. To be mentioned on 6 March 2018 (Mortgage Bond Value LKR 38,774,635.81).

12. DC Mount Lavinia 4246/03/M

Action filed claiming damages for LKR 2 Mn. Alleging wrongful seizure of goods in execution of a writ by Seylan Bank. Judgement delivered against the Bank. Bank filed Notice of Appeal.

13. DC Kurunegala 7945/L

Action filed by a third party who purchased an acquired property sold by the Bank, claiming damages of LKR 200,000.00 per month from March 2013 until final determination of the action alleging that an erroneous entry has been made in Land Registry records. Case is fixed for Trial on 8 March 2018.

14. DMR 1674/15 (WP/HCCA/COL/144/2017/LA)

The plaintiff company has filed the above case claiming LKR 50.0 Mn. as damages stating that the Bank has given wrong information to the Magistrate Court under case No. B 2326/13 where one Director of the Company got remanded. At the trial Bank raised a preliminary objection on the jurisdiction and the same was dismissed by the courts. Bank appealed against the said order. To be supported on 23 March 2018.

15. DMR 1675/15 (WP/HCCA/COL/145/2017/LA)

The plaintiff has filed the above case claiming LKR 50 Mn. as damages stating that the Bank has given wrong information to the Magistrate court under case No. B 2326/13 where the plaintiff got remanded. At the trial Bank raised a preliminary objection on the jurisdiction and the same was dismissed by the courts. Bank appealed against the said order. To be supported on 23 March 2018.

16. DC Colombo 26321/M [WP/HCCA/COL NO 25/2012 (F)]

This matter has been filed by a former Deputy Chairman of the Bank claiming LKR 10 Mn. with interest at 24% p.a. from January 2001, as *ex gratia* payment. Action dismissed. Plaintiff appealed against the dismissal. Judgement on the Appeal is fixed for 28 February 2018.

17. DC Colombo 0093/15/DMR

This case has been filed claiming LKR 505,510.10 alleging a wrongful reduction of savings account balance. Matter has been fixed for further trial on 5 April 2018.

18. DLM 00152/2013

Plaintiff filed this action claiming LKR 10 Mn. for non-receipt of original deeds. Case is fixed for Judgement on 27 February 2018.

19. DC Ampara 3547/M and DC Ampara 3548/M

These actions have been instituted by the plaintiffs claiming LKR 200 Mn. from each case as damages and to obtain a direction from Courts to return articles pawned by the plaintiffs. Both cases are fixed for Trial on 25 June 2018.

20. DC Nugegoda M/1902/2013, M/1903/2013

These actions have been instituted stating that the Bank has disclosed banking facilities enjoyed by the plaintiff while he attended the Bank with third parties and claiming LKR 20 Mn. and LKR 6.5 Mn. respectively as damages from the Bank. Both cases are fixed for trial on 21 June 2018.

21. CHC Civil 518/2012/MR

This action has been instituted by the plaintiff stating that, the Bank has recovered more than the amount due from the plaintiff, therefore claiming a sum LKR 49,025 Mn. Case is fixed for trial on 22 March 2018.

22. DC Ruwanwella 483/M

The above matter has been instituted by the plaintiff stating that a sum of LKR 225,000.00 has been withdrawn from his account while his pass book and the NIC has been stolen. Cases will be called for trial on 24 April 2018.

23. CHC 253/17/MR

This action has been instituted by the plaintiff and obtained a stay order preventing the Bank from payment of USD 1,368,750.00 on a LC. Summons returnable on the 3rd defendant who are the bankers of the beneficiary of the LC. Cases will be called for summons returnable on 31 May 2018.

24. DC Kalmunei M 6029/2017

This action has been instituted by the plaintiff claiming that a sum of LKR 2 Mn. has been withdrawn from her account while her pass book and the passport was in custody of a Foreign Employment Agency. Case will be called for replication on 21 March 2018.

Cross Claims made against the Bank on Cases filed by the Bank

25. CHC 638/09/MR (DC COLOMBO 6033/SPL)

Case was filed against a former Deputy Chairman preventing him from using confidential information gathered by him, during his tenure as a Director of the Bank. Bank withdrew the reliefs prayed, and the case is proceeding based on the claim in reconvention. Judgement delivered in favour of the Bank on 7 September 2017. Notice of appeal filed against the said judgement.

26. DC Ratnapura 12734/M

Bank has filed this case in DC Ratnapura to recover the dues, there is a cross claim of LKR 2.5 Mn. made by the defendant. Trial on 3 September 2018.

Tax matters filed by the Bank

27. CA TAX 23/2013/SC CA SPL LA 109/15

The Commissioner General of Inland Revenue had issued an assessment on the Bank for the year of assessment 2007/08 disallowing the financial cost relating to an investment by the Bank in Sri Lanka Development Bonds. The Bank appealed against this assessment to the Tax Appeals Commission and the assessment was upheld. The Bank appealed against this assessment to the Court of Appeal and on a preliminary issue of a time bar, the Court of Appeal held with the Commissioner General of Inland Revenue. The Bank appealed to the Supreme Court. Hearing has been concluded in the Supreme Court. The Bank is awaiting the judgement .

Cases filed against the Bank (Others)

Apart from the above cases, there are Appeals filed against the Bank, Land related cases, Partition cases, Testamentary cases on mortgaged properties where the Bank has been made a party, Winding up cases against the customers who have been enjoying credit facilities where the Bank has intervened, Claim cases filed against the Bank over the properties seized under Court action, Fundamental rights case on a property seized by the Government which has been mortgaged to the Bank, Writ Application filed against the Bank, where the Bank is the Defendant/Respondent.

Based on the available information and current status of the above cases, the Bank is not in a position to quantify the potential financial impact if any, as at the reporting date. However, we are of the opinion that the outcome of any action will not have a material effect on the financial position of the Bank.

Labour related cases

28. Cases against share owning trust companies and the Bank and orders made by the Commissioner General of Labour

There have been four cases filed by four former employees of Seylan Bank PLC numbered DTR 003/2016 to DTR 006/2016 against the share owning trust companies; Seybest (Private) Limited, Seyfest (Private) Limited, Sesot (Private) Limited, and Seyshop (Private) Limited respectively and the Bank in the District Court of Colombo. The relief sought under the said cases is an order from court that the provisions of the Trust Deed be given effect to in the manner specified in the respective Plaints. These cases are fixed for pre trial hearing on 27 February 2018.

There have been six cases filed by six former employees of Seylan Bank PLC numbered DTR 154/2016 to DTR 159/2016 against the share owning trust companies; Sotse (Private) Limited, Seyshop (Private) Limited, Seyfest (Private) Limited, Esots (Private) Limited, Seybest (Private) Limited and Sesot (Private) Limited and the Bank in the District Court of Colombo. The relief sought under the said cases is an order from court that the provisions of the Trust Deed be given effect to in the manner specified in the respective plaints. DTR 154/2016 to DTR 157/2016 and DTR 159/2016 will be called on 3 April 2018 for the plaintiff's replication. DTR 158/2016 will be called on 20 February 2018 to fix for trial.

The Bank and the relevant trust companies have filed Objections/Answer in the said cases wherein they have specifically stated that the plaintiffs have no right and/or claim to any of the assets of the trust companies and that all sums of money due and owing to the plaintiffs by the defendants including statutory dues under and in terms of the law have been paid to the plaintiffs.

Two ex-employees of the Bank filed this action against the Bank, Securities and Exchange Commission of Sri Lanka and the Monetary Board of the Central Bank of Sri Lanka seeking a restraining order restraining the Bank from taking steps to vote and/or obtain any benefits in respect of the shares held through the trust companies; Seybest (Private) Limited, Seyfest (Private) Limited, Sesot (Private) Limited, Seyshop (Private) Limited, Esots (Private) Limited, Sotse (Private) Limited. Objections of the Bank is due on 28 March 2018.

Fifty-nine former employees of the Bank have filed a case bearing No. DTR 08/2017 against the Bank and Sesot (Private) Limited. The relief sought under the said case is an order from court that the provisions of the trust deed be given effect to in the manner specified in the Plaint. The Bank and Sesot (Private) Limited are required to file their respective answer on 03 April 2018.

DTR 02/2018, a similar action to the above has been filed by 6 ex-employees against the Bank and Seyshop (Private) Limited and are required to file their respective answers on 22 March 2018.

Note 45.3 explains details with regard to a Memorandum of Settlement entered into with the Ceylon Bank Employees' Union ("CBEU") and a subsequent offer made to the ex-employees of the Bank with regard to the utilisation of proceeds from disposal of shares held by the trust companies and conditions relating thereto.

29. The Commissioner General of Labour has made orders with respect to 442 former employees in terms of Section 10 (1) of the Payment of Gratuity Act No. 12 of 1983 (as amended) with regard to the payment of enhanced gratuity in respect of such employees in terms of the said Act. The Bank has filed CA (Writ) application number 420/2017 to quash one order made by the Commissioner General of Labour with regard to the above. The court of appeal has on 22 January 2018 issued notice on the Commissioner General of Labour and the other respondents and notice returnable date is 8 March 2018. The matters set out in the previous paragraph has been brought to the notice of the Commissioner General of Labour at a discussion held with him and a further discussion is scheduled to be held on 5 March 2018 on the same. There has been no enforcement action which has been initiated by the Commissioner General of Labour pursuant to orders referred to in this paragraph.

Apart from the above, there are matters filed by ex-employees against the Bank relating to, determination of retirement age, termination of employment and appeals thereof including appeals against orders for payment of enhanced gratuity and surcharge.

47. Capital commitments

Capital expenditure approved by the Board of Directors for which provision, has not been made in these Financial Statements amounted to approximately:

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
47.1 Approved and contracted for	572,802	472,655	573,666	479,954
47.2 Approved but not contracted for	141,241	88,065	1,075,241	88,065

48. Operating leases

As per LKAS 17 – “a lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership”.

48.1 Operating lease payables as lessee

The Group leases a number of branch and office premises under operating leases. The leases generally run for a period of 10 years. Specially Bank's subsidiary, Seylan Developments PLC had entered into a 99-year operating lease with the Urban Development Authority (UDA) with the view of set up/conduct and operate a business for the construction of an office and apartment complex on the year of 1992. The Company pays a nominal rent to UDA for occupying the land.

The future minimum lease payments under non-cancellable operating leases, payable based on the maturity of the lease contracts as at 31 December are as follows:

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Less than one year	215,196	258,163	44,597	88,852
Between one and five years	871,239	654,824	700,641	654,825
More than five years	1,161,451	985,574	1,161,461	985,584
	2,247,886	1,898,561	1,906,699	1,729,261

48.2 Operating lease receivables as lessor

The Group enters into operating leases to rent its own properties through its subsidiary, Seylan Developments PLC, leases out its investment property held under operating leases to its tenants on contracts less than two years.

The future minimum rentals receivable under non-cancellable operating leases, receivable based on the maturity of the lease contracts as at 31 December are as follows:

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Less than one year	-	-	57,135	36,334
Between one and five years	-	-	11,964	1,883
	-	-	69,099	38,217

The future minimum lease payments are presented above based on lease agreements with tenants, where the maximum period is two years.

49. Events after the reporting period

Proposed final dividend

The Board of Directors of the Bank recommended a final dividend of LKR 3.50 per share on both voting and non-voting shares of the Bank, to be paid by way of LKR 1.00 cash dividend per share and LKR 2.50 scrip dividend per share for the financial year 2017.

Further, this dividend is to be approved at the Annual General Meeting to be held on 29 March 2018. This proposed final dividend has not been recognised as a liability as at 31 December 2017. Final dividend proposed for the year 2017 amounts to LKR 1,240,596,371.00.

Compliance with Sections 56 and 57 of the Companies Act No. 07 of 2007 – as required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend.

Debenture issue (BASEL III compliant)

Sixty million (60,000,000) fully paid, BASEL III Compliant, Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable debentures with a non-viability conversion in compliance with BASEL III requirements at a par value of LKR 100.00, to be converted to ordinary voting shares by the Bank upon the occurrence of a Trigger Event, with an option to issue up to a further forty million (40,000,000) of said debentures in the event of an oversubscription at the discretion of the Bank and in such event, the maximum issue of said debentures totalling to hundred million (100,000,000) will be offered by the Bank to qualified investors (as defined in Section 2.2.1-1 of the Rules of the Colombo Stock Exchange) pursuant to the approval of the ordinary voting shareholders of the Bank received at the Extraordinary General Meeting of the Bank held on 15 February 2018. An application has been made to the Colombo Stock Exchange to list the said debentures on the Trading Floor of the Colombo Stock Exchange upon allotment.

No circumstances have arisen since the reporting date which would require adjustments or disclosures in the Financial Statement other than those disclosed above.

50. Related party transactions

50.1 Transactions with Key Management Personnel

According to Sri Lanka Accounting Standard LKAS 24 – “Related Party Disclosures”, Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly, including any Director (whether executive or otherwise) of that entity. Accordingly, the Board of Directors, Director/Chief Executive Officer, Key Employees of the Bank holding directorships in subsidiary company have been classified as Key Management Personnel (KMP) of the Bank. Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMP’s domestic partner and children, children of the KMP’s domestic partner and dependants of the KMP or the KMP’s domestic partner. As the Bank is the Ultimate Parent of its subsidiary mentioned in Note 50.2 and the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group.

For the year ended 31 December	Bank		Group	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
50.1.1 Compensation of KMP				
Short-term employment benefits	102.55	101.60	104.84	103.77
Post-employment benefits	8.80	7.79	8.80	7.79
Total	111.35	109.39	113.64	111.56
Other non-cash benefits to KMP	5.00	2.66	5.00	2.66

50.1.2 Transactions, arrangements and agreements involving KMP and their CFM

As at 31 December	2017 LKR Mn.	2016 LKR Mn.
50.1.2.1 Statement of financial position – Bank		
Assets		
Loans and advances	18.20	15.23
Credit cards	1.08	0.93
Securities purchased under resale agreements	71.55	144.58
Total	90.83	160.74
Liabilities		
Deposit	120.35	70.66
Other investments	127.27	240.33
Total	247.62	310.99
50.1.2.2 Commitment and contingencies – Bank		
Undrawn facilities	41.03	23.63
Total	41.03	23.63
50.1.2.3 Accommodation as a percentage of Bank's regulatory capital – Bank		
Direct and indirect accommodation* (%)	0.36	0.58

* Includes securities purchased under resale agreements.

For the year ended 31 December	2017 LKR Mn.	2016 LKR Mn.
50.1.2.4 Income Statement – Bank		
Interest income	10.52	7.74
Interest expenses	18.71	26.30
Other income	–	0.01
Compensation to KMP	116.35	112.05

As at 31 December	2017	2016
50.1.2.5 Shareholding of KMP and CFM		
Investment in Bank shares – voting (No. of shares)	39,522	38,723
Investment in Bank shares – non-voting (No. of shares)	213,319	161,162
Net dividend paid (LKR Mn.)	0.72	0.53

Mr S Paliawadana retired from the Bank w.e.f. 31 December 2017.

50.2 Other related party transactions

The Bank had the following financial dealings during the year 2017 with its related parties and unless otherwise stated, transactions were carried out in the ordinary course of business at commercial rates.

The parties given below are considered related parties mainly due to significant influence arising as a result of common directorships and through shareholdings.

50.2.1 Transactions with other related parties

As at 31 December	Subsidiary		Share trust companies and post-employment benefit plans		State institutions		Shareholders with significant influence		Common directorship entities	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
50.2.1.1 Statement of Financial Position – Bank										
Assets										
Loans and advances	-	0.10	97.05	97.68	-	-	2,719.52	3,707.81	3,136.03	478.08
Other receivable – rent deposit	30.00	30.00	-	-	-	-	-	-	-	-
Securities purchased under resale agreements	-	-	-	-	-	-	-	1,696.00	-	-
Debentures	-	-	-	-	-	315.60	74.53	74.53	665.00	-
Interest and other receivable	-	-	139.72	132.67	-	7.77	3.57	13.67	18.89	0.56
Total	30.00	30.10	236.77	230.35	-	323.37	2,797.62	5,492.01	3,819.92	478.64
Liabilities										
Deposit	979.90	57.67	213.99	2,461.91	959.97	984.47	272.10	143.95	1,498.96	463.52
Securities sold under repurchase agreements	-	11.60	3,014.35	1,000.00	-	-	1.53	362.42	-	-
Other instruments including debentures	150.00	150.00	5,311.98	3,996.77	1,073.45	1,073.45	110.84	2,310.84	-	-
Interest and other payable	15.21	7.08	171.41	122.01	0.04	1.86	0.61	22.96	77.41	0.04
Total	1,145.11	226.35	8,711.73	7,580.69	2,033.46	2,059.78	385.08	2,840.17	1,576.37	463.56
50.2.1.2 Commitment and contingencies – Bank										
Non-funded facilities	-	-	-	-	-	-	1,598.57	1,728.97	1,531.84	154.41
Undrawn facilities	75.00	74.90	104.25	103.62	-	-	3,131.37	1,159.57	1,656.99	4,237.75
Total	75.00	74.90	104.25	103.62	-	-	4,729.94	2,888.54	3,188.83	4,392.16
50.2.1.3 Accommodation as a percentage of bank's regulatory capital – Bank										
Direct and indirect accommodation* (%)	0.21	0.24	0.55	0.64	-	1.00	20.64	26.42	19.18	15.38

* Includes securities purchased under resale agreements.

For the year ended 31 December	Subsidiary		Share trust companies and post-employment benefit plans		State institutions		Shareholders with significant influence		Common directorship entities	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
50.2.1.4 Income Statement – Bank										
Income	70.74	57.23	30.55	27.30	22.40	34.21	595.47	661.70	216.35	263.54
Expenses	216.08	147.34	667.05	432.23	200.67	145.05	210.42	433.38	220.84	53.96
50.2.1.5 Other Transactions – Bank										
Other payments	-	-	156.81	138.53	-	-	-	-	-	-

For the year ended 31 December	Share trust companies and post-employment benefit plans		State institutions		Shareholders with significant influence		Common directorship entities	
	2017	2016	2017	2016	2017	2016	2017	2016
50.2.1.6 Shareholding of other related parties								
Investment in Bank shares – voting (No. of shares)	13,016,509	12,752,994	26,942,047	26,396,608	42,077,189	41,225,341	-	-
Investment in Bank shares – non-voting (No. of shares)	-	-	-	-	78,412,313	74,312,926	31,040	30,000
Net dividend paid (LKR Mn.)	37.66	31.91	77.96	66.04	345.57	289.06	0.09	0.08

The Bank obtained the Directors' and Officers' Liability Cover 2017/2018 through Finlay Insurance Brokers (Pvt) Limited.

50.2.2 Transactions with the Government of Sri Lanka/Entities controlled, jointly controlled, significantly influenced by the Government of Sri Lanka

The Government of Sri Lanka indirectly holds 34.17% of the voting rights of the Bank as at 31 December 2017 through Sri Lanka Insurance Corporation Limited, Employees' Provident Fund, Bank of Ceylon, Employees' Trust Fund, and thus has significant influence over the financial and operating policies of the Bank.

Bank has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (Government-Related Entities) as related parties according to LKAS 24 – "Related Party Disclosures".

However, limited disclosures have been made in accordance with LKAS 24 – "Related Party Disclosures" for transactions that are individually significant because of their size although these transactions were undertaken on normal terms in the ordinary course of business.

50.2.2.1 Percentage of Voting Share Holding by State Institutions in Seylan Bank PLC is 34.17% as at 31 December 2017 and the break-up is given below:

	No. of shares – voting	%
Sri Lanka Insurance Corporation Limited	26,942,047	15.00
Bank of Ceylon	13,471,025	7.50
Employees' Provident Fund	17,705,441	9.86
Employees' Trust Fund Board	3,240,747	1.81
Total holdings by state institutions	61,359,260	34.17
Total ordinary shares – voting	179,613,669	

50.2.2.2 Percentage of Non-Voting Share Holding by State Institutions in Seylan Bank PLC is 6.55% as at 31 December 2017 and the break-up is given below:

	No. of shares – non-voting	%
Employees' Provident Fund	9,326,028	5.33
Employees' Trust Fund Board	2,124,675	1.22
Total holdings by state institutions	11,450,703	6.55
Total ordinary shares – non-voting	174,842,437	

50.2.2.3 Central Bank of Sri Lanka

Relationship with the Bank	Nature of the transactions	Amount LKR '000
Government-related entity	Treasury Bills	3,576,900
	Treasury Bonds including Sri Lanka Development Bonds	76,464,537
	Interest income (Note 7.3)	8,328,831
	Interest expenses (Note 7.3)	1,144,020
	Annual license fees	23,000
	Sri Lanka Deposit Insurance Fund Contribution (Note 13)	297,259
	Balance with Central Bank of Sri Lanka (Note 20)	19,119,843

Other than above, the Bank made statutory payments purchases and obtained services in the ordinary course of business with the Government and related entities. There are no other transactions that are collectively significant with Government-related entities.

51. Maturity analysis

51.1 Assets – Bank

An analysis of the total assets employed as at 31 December 2017 based on the remaining period at the reporting date to the respective contractual Cash Flows/Maturity dates is given below:

	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total as at 31.12.2017 LKR '000
Interest earning assets						
Bills of exchange	4,120,613	28,841	-	-	-	4,149,454
Loans and receivables	132,760,798	51,383,247	54,695,012	24,182,285	13,691,111	276,712,453
Placements with banks and finance companies	1,455,115	-	-	-	-	1,455,115
Government of Sri Lanka Treasury Bills/Bonds and Development Bonds	4,555,706	20,022,999	16,013,119	22,217,027	17,232,586	80,041,437
Investments in debentures	13,172	306,213	193,335	-	665,000	1,177,720
Securities purchased under resale agreements	1,743,646	7,209	-	-	-	1,750,855
	144,649,050	71,748,509	70,901,466	46,399,312	31,588,697	365,287,034
Non-interest earning assets						
Cash in hand	7,331,812	-	-	-	-	7,331,812
Statutory deposit with CBSL	19,119,843	-	-	-	-	19,119,843
Balances with Banks	987,572	-	-	-	-	987,572
Investments in equities	1,756,871	-	-	-	1,153,602	2,910,473
Group balances receivable	30,000	-	-	-	-	30,000
Property, plant and equipment/ leasehold rights/intangible assets	-	-	-	-	3,899,016	3,899,016
Assets held for sale	900,543	-	-	-	-	900,543
Derivative financial instruments	60,165	-	-	-	-	60,165
Other assets	5,856,159	42,758	1,255	52,536	1,646,673	7,599,381
	36,042,965	42,758	1,255	52,536	6,699,291	42,838,805
Total assets	180,692,015	71,791,267	70,902,721	46,451,848	38,287,988	408,125,839

51.2 Liabilities and equity – Bank

An analysis of the total liabilities and equity as at 31 December 2017 based on the remaining period at the reporting date to the respective contractual Cash Flows/Maturity dates is given below:

	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total as at 31.12.2017 LKR '000
Interest-bearing liabilities						
Deposits from customers other than demand deposits	121,874,057	142,466,478	8,639,368	6,598,815	7,517,119	287,095,837
Securities sold under repurchase agreements	15,969,055	662,918	-	-	-	16,631,973
Due to banks and other borrowings	7,720,654	6,126,000	1,742,464	11,486,250	-	27,075,368
Debentures	2,459,155	462,280	4,572,590	1,724,250	3,275,750	12,494,025
Group balances payable	1,023,175	101,161	-	-	-	1,124,336
	149,046,096	149,818,837	14,954,422	19,809,315	10,792,869	344,421,539
Non-interest-bearing liabilities						
Demand deposits	20,003,065	-	-	-	-	20,003,065
Other liabilities	6,479,435	-	-	-	-	6,479,435
Derivative financial instruments	571,557	-	-	-	-	571,557
Current tax liabilities	1,022,378	-	-	-	-	1,022,378
Deferred tax liabilities	1,359,044	-	-	-	-	1,359,044
Dividend payable	42,124	-	-	-	-	42,124
Group balances payable	20,774	-	-	-	-	20,774
Equity	-	-	-	-	34,205,923	34,205,923
	29,498,377	-	-	-	34,205,923	63,704,300
Total liabilities and equity	178,544,473	149,818,837	14,954,422	19,809,315	44,998,792	408,125,839

51.3 Assets – Group

An analysis of the total assets employed as at 31 December 2017 based on the remaining period at the reporting date to the respective contractual Cash Flows/Maturity dates is given below:

	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total as at 31.12.2017 LKR '000
Interest earning assets						
Bills of exchange	4,120,613	28,841	-	-	-	4,149,454
Loans and receivables	132,760,798	51,383,247	54,695,012	24,182,285	13,691,111	276,712,453
Placements with banks and finance companies	1,455,115	-	-	-	-	1,455,115
Government of Sri Lanka Treasury Bills/Bonds and Development Bonds	4,555,706	20,022,999	16,013,119	22,217,027	17,232,586	80,041,437
Investments in debentures	13,172	306,213	193,335	-	665,000	1,177,720
Securities purchased under resale agreements	1,743,646	7,209	-	-	-	1,750,855
	144,649,050	71,748,509	70,901,466	46,399,312	31,588,697	365,287,034
Non-interest earning assets						
Cash in hand	7,331,852	-	-	-	-	7,331,852
Statutory deposit with CBSL	19,119,843	-	-	-	-	19,119,843
Balances with banks	987,572	-	-	-	-	987,572
Investments in equities	1,762,220	-	-	-	-	1,762,220
Investment properties	-	-	-	-	851,667	851,667
Property, plant and equipment/ leasehold rights/intangible assets	-	-	-	-	6,946,383	6,946,383
Derivative financial instruments	60,165	-	-	-	-	60,165
Other assets	5,874,599	43,633	1,255	57,769	1,659,763	7,637,019
	35,136,251	43,633	1,255	57,769	9,457,813	44,696,721
Total assets	179,785,301	71,792,142	70,902,721	46,457,081	41,046,510	409,983,755

51.4 Liabilities and equity – Group

An analysis of the total liabilities and equity as at 31 December 2017 based on the remaining period at the reporting date to the respective contractual Cash Flows/Maturity dates is given below:

	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total as at 31.12.2017 LKR '000
Interest-bearing liabilities						
Deposits from customers other than demand deposits	121,874,057	142,466,478	8,639,368	6,598,815	7,517,119	287,095,837
Securities sold under repurchase agreements	15,969,055	662,918	-	-	-	16,631,973
Due to banks and other borrowings	7,720,654	6,126,000	1,742,464	11,486,250	-	27,075,368
Debentures	2,459,155	462,280	4,572,590	1,724,250	3,275,750	12,494,025
	148,022,921	149,717,676	14,954,422	19,809,315	10,792,869	343,297,203
Non-interest-bearing liabilities						
Demand deposits	20,003,065	-	-	-	-	20,003,065
Other liabilities	6,541,348	-	-	-	-	6,541,348
Derivative financial instruments	571,557	-	-	-	-	571,557
Current tax liabilities	1,046,249	-	-	-	-	1,046,249
Deferred tax liabilities	1,431,294	-	-	-	-	1,431,294
Dividend payable	52,400	-	-	-	-	52,400
Equity	-	-	-	-	35,826,973	35,826,973
Non-controlling interest	-	-	-	-	1,213,666	1,213,666
	29,645,913	-	-	-	37,040,639	66,686,552
Total liabilities and equity	177,668,834	149,717,676	14,954,422	19,809,315	47,833,508	409,983,755

52. Segment reporting

Segment information is presented in respect of the Group's operating segments. Operating segments are based on the Group's Management and internal reporting structure.

The Group comprises the following main operating segments:

Banking

Loans and receivables (including leases and bills), margin trading, insurance, deposits and other transactions and balances with corporate and retail customers.

Treasury

Undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities, use of derivatives for risk management purpose and investing in liquid assets such as short-term placements, corporate debt securities and Government debt securities.

Property/Investment

The property investment income, expenses, assets and liabilities.

	Banking		Treasury	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Interest income	37,367,598	28,323,342	4,020,794	3,656,532
Interest expense	24,863,457	18,046,581	3,353,529	1,942,184
Net interest income	12,504,141	10,276,761	667,265	1,714,348
Fee and commission income	3,948,990	3,219,458	1,356	1,615
Fee and commission expense	125,500	89,439	38,962	30,544
Net fee and commission income	3,823,490	3,130,019	(37,606)	(28,929)
Net interest, fee and commission income	16,327,631	13,406,780	629,659	1,685,419
Net trading income	-	-	(212,772)	(227,770)
Net gain on financial investments	-	-	358,636	11,895
Other operating income (net)	170,391	328,892	1,200,398	931,603
Inter segment revenue	(214,471)	(273,730)	141,300	199,491
Total operating income	16,283,551	13,461,942	2,117,221	2,600,638
Depreciation and amortisation charge for the year	342,413	327,954	1,164	1,252
Impairment losses for the year	1,546,629	933,768	6,965	-
Operating expenses, VAT and NBT	9,142,536	8,209,542	538,254	644,475
Reportable segment profit before income tax	5,251,973	3,990,678	1,570,838	1,954,911
Income tax expense				
Profit for the year				
Profit attributable to:				
Equity holders of the Bank				
Non-controlling interests				
Profit for the year				
Other comprehensive income, net of income tax	(211,173)	54,555	2,636,992	(1,222,758)
Other information				
Reportable segment assets	293,037,474	225,870,556	104,275,902	106,189,933
Segment accumulated amortisation	(733,848)	(528,204)	(25,573)	(40,021)
Total assets	292,303,626	225,342,352	104,250,329	106,149,912
Reportable segment liabilities and equity	321,813,148	285,669,401	43,281,902	34,700,927
Total liabilities and equity	321,813,148	285,669,401	43,281,902	34,700,927
Cash flows from operating activities	(9,338,958)	569,300	1,572,002	1,956,163
Cash flows from investing activities	(300,066)	(542,753)	(8,275,716)	988,947
Cash flows from financing activities	-	-	10,628,067	6,771,772
Capital expenditure	(294,640)	(552,731)	(6,336)	(101)

SLFRS 8 requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters (the "management approach"). Such operating segments are identified on the basis of internal reports that the entity's Board of Directors reviews regularly in allocating resources and in assessing their performance.

Bank reviewed the existing reporting segments and concluded that no material change is required.

Property/investments		Unallocated/eliminations		Total	
2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
84,163	33,742	2,259,416	1,459,215	43,731,971	33,472,831
296	1,416	(60,311)	(16,423)	28,156,971	19,973,758
83,867	32,326	2,319,727	1,475,638	15,575,000	13,499,073
-	-	2,211	1,791	3,952,557	3,222,864
5,934	5,643	157	-	170,553	125,626
(5,934)	(5,643)	2,054	1,791	3,782,004	3,097,238
77,933	26,683	2,321,781	1,477,429	19,357,004	16,596,311
(1,192)	(1,596)	-	-	(213,964)	(229,366)
-	-	-	-	358,636	11,895
269,116	212,303	404,273	(38,243)	2,044,178	1,434,555
-	-	73,171	74,239	-	-
345,857	237,390	2,799,225	1,513,425	21,545,854	17,813,395
776	808	399,064	312,152	743,417	642,166
-	184	(48,898)	20,419	1,504,696	954,371
79,280	104,959	2,252,748	1,486,637	12,012,818	10,445,613
265,801	131,439	196,311	(305,783)	7,284,923	5,771,245
				2,281,292	1,736,355
				5,003,631	4,034,890
				4,816,834	4,013,132
				186,797	21,758
				5,003,631	4,034,890
9,215	1,399	(28,189)	838,937	2,406,845	(327,867)
5,475,554	5,316,779	15,104,781	28,129,391	417,893,711	365,506,659
(1,535)	(808)	(7,149,000)	(6,688,185)	(7,909,956)	(7,257,218)
5,474,019	5,315,971	7,955,781	21,441,206	409,983,755	358,249,441
5,474,019	5,315,688	39,414,686	32,563,425	409,983,755	358,249,441
5,474,019	5,315,688	39,414,686	32,563,425	409,983,755	358,249,441
118,358	91,192	239,617	86,458	(7,408,981)	2,703,113
952,006	(3,741)	(749,499)	(307,208)	(8,373,275)	135,245
(110,974)	(88,779)	(1,938,089)	(926,350)	8,579,004	5,756,643
(36,626)	(1,801)	(554,147)	(297,401)	(891,749)	(852,034)

53. Non-uniform accounting policies

The impact of non-uniform accounting policies adopted by subsidiary company has been adjusted in the Consolidated Financial Statements as set out below:

Adjustment due to different accounting policies of the Parent and the Group entity Seylan Developments PLC (SD)

Seylan Bank PLC accounts for investment properties at cost, whereas Seylan Developments PLC accounts for investment properties at fair value.

Seylan Towers (East Towers) owned by Seylan Developments PLC is rented out to Seylan Bank PLC and is occupied by the Bank.

Therefore, the land and buildings does not qualify as investment property in the Consolidated Financial Statements.

The land is treated as Lease Hold Rights and the building as a property in the Consolidated Financial Statements and have been depreciated accordingly (LKAS 40).

	Adjustments LKR '000	Group impact LKR '000	Non-controlling interest impact LKR '000
Adjustments to revaluation gain/(loss) on investment properties and deferred tax			
Reversal of revaluation gain recognised in the Statement of Comprehensive Income by SD in 2017	(5,362)	(3,781)	(1,581)
Reversal of deferred tax recognised in the Statement of Comprehensive Income by SD in 2017	(30,700)	(21,647)	(9,053)
Loss on revaluation of East Tower in 2017 adjusted to revaluation reserves in Consolidated Financial Statements	(28,234)	(19,908)	(8,326)
Deferred tax on revaluation gain of East Tower in 2017 recognised in Consolidated Financial Statements	7,905	5,574	2,331
Reversal of gain on disposal of assets held for sale recognised in the Statement of Comprehensive Income by SD in 2017	(46,164)	(32,550)	(13,614)
Gain on disposal of assets held for sale recognised in Consolidated Financial Statements	521,337	367,595	153,742
	418,782	295,283	123,499
Charging of depreciation			
Charges depreciation adjusted to Consolidated Statement of Comprehensive Income for 2017	(46,949)	(33,104)	(13,845)
	(46,949)	(33,104)	(13,845)

A 30 Year journey brought the Bank as a financially sound organisation. Its Equity has increased each year thereby adding value to its shareholders. The annual increase in Dividends declared and paid, bears testimony to the growing return on shareholders' funds

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Ten Years at a Glance

Year ended 31 December	2017	2016	2015	2014	2013	2012	2011	2010*	2009*	2008*
	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	(Restated) LKR Mn.	(Reclassified) LKR Mn.
Trading results										
Gross income	49,338	37,873	28,586	28,564	28,091	23,726	18,824	20,032	23,155	25,246
Profit before income tax	6,656	5,734	5,777	4,649	3,454	3,199	1,181	1,998	893	155
Income tax	2,226	1,724	1,946	1,571	1,138	1,135	505	769	349	-
Profit after taxation	4,430	4,010	3,831	3,078	2,316	2,064	676	1,229	544	155
Other comprehensive income, net of tax	2,426	(345)	(1,054)	(55)	913	(139)	(346)	-	-	-
Total comprehensive income	6,856	3,665	2,777	3,023	3,229	1,925	330	-	-	-
Dividends proposed (ordinary) LKR per share	3.50	3.25	2.75	2.50	2.25	2.00	1.00	1.00	0.50	-

As at 31 December	2017	2016	2015	2014	2013	2012	2011	2010	2009*	2008*
	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	(Restated) LKR Mn.	(Reclassified) LKR Mn.
Financial position										
Assets										
Cash and short term funds (including securities purchased under resale agreements)	10,070	15,653	10,113	24,436	10,910	6,728	7,865	5,965	7,636	6,176
Balances with Central Bank of Sri Lanka	19,120	16,212	8,564	7,432	7,505	8,029	7,071	5,454	5,084	6,857
Investments (including investment properties)	82,976	73,336	72,203	48,859	49,351	33,879	35,033	40,341	30,287	26,020
Loans and receivables, placements with banks and finance companies (including leases and bills of exchange)	282,317	236,355	193,862	157,297	137,523	124,728	106,390	89,091	80,287	104,154
Investment in subsidiary	1,154	1,154	1,152	1,106	801	793	793	359	860	948
Other assets (including taxation)	8,590	8,669	6,915	6,887	5,994	6,871	5,977	6,011	5,223	5,753
Property, plant and equipment, leasehold rights and Intangible assets	3,899	4,634	3,522	3,294	3,077	2,633	2,815	3,010	3,387	4,138
Total assets	408,126	356,013	296,331	249,311	215,161	183,661	165,944	150,231	132,764	154,046
Liabilities										
Customer deposits and due to banks	334,152	291,185	244,310	197,540	178,916	152,865	131,292	112,880	104,816	107,939
Borrowings and debentures	29,148	28,491	18,605	20,090	7,830	4,896	12,203	18,183	9,165	26,309
Other liabilities	8,197	7,756	7,486	6,327	5,546	6,353	4,906	6,366	8,189	12,762
Taxation	2,381	762	843	1,324	1,091	683	217	41	-	-
Dividends payable	42	46	31	21	16	13	24	22	23	16
Total liabilities	373,920	328,240	271,275	225,302	193,399	164,810	148,642	137,492	122,193	147,026
Equity										
Stated capital	11,228	10,530	10,530	10,530	10,530	10,225	10,259	5,568	5,568	2,542
Reserve fund	1,609	1,388	1,187	996	842	726	619	569	507	480
Reserves	21,369	15,855	13,339	12,483	10,390	7,900	6,424	6,602	4,496	3,998
Total equity	34,206	27,773	25,056	24,009	21,762	18,851	17,302	12,739	10,571	7,020
Total liabilities and equity	408,126	356,013	296,331	249,311	215,161	183,661	165,944	150,231	132,764	154,046
Commitments and contingencies	99,501	64,111	57,222	45,098	35,473	31,287	36,247	30,197	22,263	26,874

* Based on SLAS applicable prior to 1 January 2012

Summary of Performance Indicators

	Measure	2017	2016	2015	2014	2013
Size						
Assets growth	%	14.64	20.14	18.86	15.87	17.15
Commitments and contingencies/(total assets + commitments and contingencies)	%	19.60	15.26	16.18	15.32	14.15
Interest earning assets/total assets	%	89.50	88.67	90.11	88.76	89.06
Cash and reserves/total assets	%	6.72	6.90	5.52	5.66	5.90
Risk weighted assets growth	%	14.47	23.21	22.72	19.38	10.18
Profitability						
Return on average assets	%	1.16	1.23	1.40	1.33	1.16
Return on average equity	%	14.30	15.18	15.62	13.45	11.40
Profit for the year/(total assets + commitments and contingencies)	%	0.87	0.95	1.08	1.05	0.92
Net interest margin	%	4.24	4.27	4.42	4.92	4.89
Net interest income/total income	%	31.40	35.35	41.37	39.09	34.60
Cost to income ratio (including VAT and NBT)	%	61.02	62.35	61.20	57.37	62.59
Cost to income ratio (excluding VAT and NBT)	%	51.97	54.75	53.41	49.96	56.77
Average interest yield	%	12.84	11.26	9.64	10.95	13.62
Average interest cost	%	8.79	7.35	5.50	6.48	9.41
Interest rate spread	%	4.05	3.91	4.14	4.47	4.21
Interest yield on average customer advances	%	13.17	11.56	10.00	11.90	14.56
Interest cost on average customer deposits	%	8.01	6.44	4.97	6.14	8.58
Spread on customer deposits and advances	%	5.16	5.12	5.03	5.76	5.98
Dividend payout*	%	28.00	27.95	24.76	28.01	33.52
Growth rate of equity	%	23.17	10.84	4.36	10.33	15.43
Earnings per share	LKR	12.58	11.39	11.11	8.92	6.74
Ordinary dividends per share	LKR	3.50	3.25	2.75	2.50	2.25
Net assets value per share	LKR	96.50	80.51	72.63	69.60	63.08
Asset quality						
Impairment allowances for loans and receivables	LKR Mn.	5,607	6,053	5,738	7,012	7,615
Impairment allowance/loans and receivables	%	1.96	2.50	2.89	4.33	5.28
Provision cover	%	35.39	43.93	46.80	47.00	41.77
Capital adequacy						
Leverage on share holders funds	Times	10.93	11.82	10.83	9.38	8.89
Leverage on capital funds (Including debentures)	Times	7.74	7.84	8.19	6.87	7.60
Percentage earnings retained	%	72.00	72.05	75.24	71.99	66.48
Equity/deposits, borrowings and securities sold under Repurchase agreements	%	9.75	9.04	9.80	11.43	11.86
Equity/total assets	%	8.38	7.80	8.46	9.63	10.11
Equity/loans and receivables	%	11.94	11.47	12.60	14.82	15.09
Liquidity and funding						
Loans and receivables/deposits, borrowings and securities sold Under repurchase agreements	%	81.66	78.80	77.75	77.14	78.56
Deposits/deposits, borrowings, debentures and securities sold under Repurchase agreements	%	84.53	85.54	85.40	85.43	89.63
Liquid assets/total assets	%	24.06	24.83	26.50	26.70	28.65
Liquid assets/deposits, borrowings and securities sold under Repurchase agreements	%	27.99	28.78	30.70	31.71	33.60
Net lending or (borrowings) in call money market	LKR Mn.	(11,056)	(16,382)	(18,264)	(7,834)	(9,572)
Other data						
Number of banking centres		166	166	159	157	151
Number of staff members		3,199	3,165	3,085	2,947	3,049
Profit per staff member	LKR '000	1,385	1,267	1,242	1,045	759
Number of ordinary shares						
– Voting	000	179,614	175,977	175,977	175,977	175,977
– Non-voting	000	174,842	168,983	168,983	168,983	168,983
Share prices as at 31 December						
– Voting	LKR	87.20	90.00	95.00	95.00	64.20
– Non-voting	LKR	56.00	59.00	73.00	57.50	31.00

* Dividends for the year 2017 are accounted for as per the accounting standards – LKAS 10

Statement of Comprehensive Income in US Dollars

For the year ended 31 December	Bank			Group		
	2017 USD '000	2016 USD '000	Change %	2017 USD '000	2016 USD '000	Change %
Gross income	322,157	252,150	27.76	325,651	252,415	29.01
Interest income	285,511	222,751	28.17	285,550	222,855	28.13
Less: Interest expenses	184,361	133,092	38.52	183,852	132,981	38.25
Net interest income	101,150	89,659	12.82	101,698	89,874	13.16
Fee and commission income	25,810	21,460	20.27	25,809	21,457	20.28
Less: Fee and commission expenses	1,075	799	34.54	1,114	836	33.25
Net fee and commission income	24,735	20,661	19.72	24,695	20,621	19.76
Net trading income	(1,389)	(1,516)	8.38	(1,397)	(1,527)	8.51
Net gain on financial investments	2,342	79	2,864.56	2,342	79	2,864.56
Other operating income (net)	9,884	9,375	5.43	13,347	9,551	39.74
Total operating income	136,722	118,258	15.61	140,685	118,598	18.62
Net impairment loss	9,825	6,353	54.65	9,825	6,354	54.63
Net operating income	126,897	111,905	13.40	130,860	112,244	16.59
Less: Operating expenses						
Personnel expenses	33,927	30,693	10.54	34,142	30,906	10.47
Premises, equipment and establishment expenses	15,698	14,677	6.96	15,316	14,438	6.08
Other expenses	21,433	19,379	10.60	21,527	19,536	10.19
Operating expenses	71,058	64,749	9.74	70,985	64,880	9.41
Operating profit before taxes	55,839	47,156	18.41	59,875	47,364	26.41
Value added tax and nation building tax on financial services	12,375	8,983	37.76	12,308	8,941	37.66
Operating profit before income tax	43,464	38,173	13.86	47,567	38,423	23.80
Income tax expense	14,536	11,473	26.70	14,896	11,560	28.86
Profit for the year	28,928	26,700	8.34	32,671	26,863	21.62
Profit attributable to:						
Equity holders of the Bank	28,928	26,700	8.34	31,451	26,718	17.71
Non-controlling interests	-	-	-	1,220	145	741.38
Profit for the year	28,928	26,700	8.34	32,671	26,863	21.62
Basic/diluted earnings per share (USD)	0.08	0.08	8.34	0.09	0.08	17.71
Other comprehensive income, net of tax						
Items that will never be reclassified to profit or loss						
Revaluation of property, plant and equipment	-	5,479	(100.00)	(133)	5,596	(102.38)
Deferred tax on revaluation surplus of land	(1,515)	-	-	(1,515)	-	-
Actuarial gain on defined benefit obligations	184	363	(49.31)	178	367	(51.50)
Items that are or may be reclassified to profit or loss						
Net gain/(loss) on remeasuring available-for-sale financial assets	17,219	(8,140)	311.54	17,234	(8,146)	311.56
Net movement of cash flow hedge reserve	(48)	-	-	(48)	-	-
Other comprehensive income for the year, net of tax	15,840	(2,298)	789.30	15,716	(2,183)	819.93
Total comprehensive income for the year	44,768	24,402	83.46	48,387	24,680	96.06
Total comprehensive income attributable to:						
Equity holders of the Bank	44,768	24,402	83.46	47,204	24,501	92.66
Non-controlling interest	-	-	-	1,183	179	560.89
Total comprehensive income for the year	44,768	24,402	83.46	48,387	24,680	96.06

Exchange rate of USD 1 was LKR 153.15 as at 31 December 2017 (LKR 150.20 as at 31 December 2016).

The Statement of Comprehensive Income given on this page is solely for the convenience of the shareholders, bankers, investors, customers and other users of Financial Statements and does not form a part of the Audited Financial Statements.

Statement of Financial Position in US Dollars

As at 31 December	Bank			Group		
	2017 USD '000	2016 USD '000	Change %	2017 USD '000	2016 USD '000	Change %
Assets						
Cash and cash equivalents	54,322	55,500	(2.12)	54,322	55,501	(2.12)
Balances with Central Bank of Sri Lanka	124,844	107,934	15.67	124,844	107,934	15.67
Placements with banks and finance companies	9,501	2,225	327.01	9,501	2,225	327.01
Derivative financial instruments	393	770	(48.96)	393	770	(48.96)
Other financial assets – held for trading	51,839	60,322	(14.06)	51,874	60,366	(14.07)
Securities purchased under resale agreements	11,432	48,715	(76.53)	11,432	48,715	(76.53)
Customer loans and receivables	1,833,901	1,571,373	16.71	1,833,901	1,571,373	16.71
Financial investments – available for sale	349,377	305,352	14.42	349,377	305,598	14.33
Financial investments – held to maturity	140,580	122,584	14.68	140,580	123,030	14.26
Investment in subsidiary	7,532	7,680	(1.93)	–	–	–
Group balances receivable	196	200	(2.00)	–	–	–
Property, plant and equipment	22,822	28,825	(20.83)	39,188	39,758	(1.43)
Leasehold rights	264	282	(6.38)	3,796	3,933	(3.48)
Investment properties	–	–	–	5,561	5,686	(2.20)
Intangible assets	2,373	1,745	35.99	2,373	1,745	35.99
Assets held for sale	5,880	–	–	–	1,510	(100.00)
Other assets	49,621	56,749	(12.56)	49,866	57,005	(12.52)
Total assets	2,664,877	2,370,256	12.43	2,677,008	2,385,149	12.24
Liabilities						
Due to banks	176,644	118,031	49.66	176,644	118,031	49.66
Derivative financial instruments	3,732	577	546.79	3,732	577	546.79
Customer deposits	2,005,216	1,820,615	10.14	2,005,216	1,820,615	10.14
Securities sold under repurchase agreements	108,599	106,368	2.10	108,599	106,368	2.10
Other borrowings	146	141	3.55	146	141	3.55
Group balances payable	7,477	1,507	396.15	–	–	–
Debentures	81,580	83,180	(1.92)	81,580	83,180	(1.92)
Current tax liabilities	6,676	4,996	33.63	6,832	5,043	35.47
Deferred tax liabilities	8,874	79	11,132.91	9,346	472	1,880.08
Other liabilities	42,583	49,860	(14.59)	43,054	50,419	(14.61)
Total liabilities	2,441,527	2,185,354	11.72	2,435,149	2,184,846	11.46
Equity						
Stated capital	73,316	70,105	4.58	73,316	70,105	4.58
Statutory reserve fund	10,509	9,241	13.72	10,509	9,241	13.72
Retained earnings	112,165	93,543	19.91	116,347	95,239	22.16
Other reserves	27,360	12,013	127.75	33,762	18,626	81.26
Total equity attributable to equity holders of the Bank	223,350	184,902	20.79	233,934	193,211	21.08
Non-controlling interest	–	–	–	7,925	7,092	11.75
Total equity	223,350	184,902	20.79	241,859	200,303	20.75
Total liabilities and equity	2,664,877	2,370,256	12.43	2,677,008	2,385,149	12.24
Commitments and contingencies	649,695	426,836	52.21	650,138	427,330	52.14
Net assets value per share (USD)	0.63	0.54	20.79	0.66	0.56	21.08

Exchange rate of USD 1 was LKR 153.15 as at 31 December 2017 (LKR 150.20 as at 31 December 2016).

The Statement of Financial Position given on this page is solely for the convenience of the shareholders, bankers, investors, customers and other users of Financial Statements and does not form a part of the Audited Financial Statements.

Investor Information

Twenty Largest Ordinary (Voting) Shareholders as at 31 December 2017

Ordinary voting shares	2017		Comparative holdings of the top 20 holders in 2016	
	No. of shares	%	No. of shares	%
1. Sri Lanka Insurance Corporation Limited [includes Sri Lanka Insurance Corporation Limited – (General Fund) – 17,961,365 and Sri Lanka Insurance Corporation Limited – (Life Fund) – 8,980,682]	26,942,047	15.00	26,396,608	15.00
2. Brown & Company PLC A/c No. 1*	24,921,279	13.87	24,416,750	13.87
3. Employees' Provident Fund	17,705,441	9.86	17,346,996	9.86
4. LOLC Investments Limited**	17,155,820	9.55	16,808,502	9.55
5. National Development Bank PLC A/c No. 2	15,671,043	8.72	15,353,784	8.72
6. Bank of Ceylon No. 1 Account	13,471,025	7.50	13,198,305	7.50
7. Mr R S Captain	10,876,665	6.06	7,003,631	3.98
8. Mr S E Captain	3,631,235	2.02	–	–
9. Employees' Trust Fund Board	3,240,747	1.81	3,175,139	1.80
10. Seyfest (Private) Limited	3,080,300	1.71	3,017,940	1.71
11. Ms L A Captain	2,517,488	1.40	149,099	0.08
12. Sesot (Private) Limited	2,326,134	1.30	2,279,042	1.30
13. Seyshop (Private) Limited	2,210,179	1.23	2,165,435	1.23
14. Seybest (Private) Limited	2,210,179	1.23	2,165,435	1.23
15. Esots (Private) Limited	2,192,519	1.22	2,148,132	1.22
16. Lanka Century Investments PLC	2,122,122	1.18	2,079,160	1.18
17. Capital Development and Investment Company PLC A/c No. 2	1,819,258	1.01	1,782,428	1.01
18. AIA Insurance Lanka PLC A/c No. 7	1,652,155	0.92	1,618,708	0.92
19. Mr K R B Fernando	1,036,232	0.58	1,015,254	0.58
20. Sotse (Private) Limited	997,198	0.56	977,010	0.56
Total shares held by the top 20 holders – 2017	155,779,066	86.73	–	–
Balance shares held by other 9,027 ordinary voting shareholders – as at 31 December 2017	23,834,603	13.27	–	–
Total ordinary voting shares	179,613,669		175,977,401	
Total ordinary voting shareholders	9,047		9,245	

Notes:

Brown & Company PLC* and LOLC Investments Limited** collectively hold 23.42% of the issued capital of the Bank. This joint shareholding limit has been approved by the Central Bank vide their letter dated 14 September 2011 subject to the following:

- Shareholding of Brown & Company PLC A/c No. 1* to be reduced from 13.87% to 9.55% within five years from 16 June 2011. The Bank has drawn the shareholders' attention to this requirement.
- The joint holding of Brown & Company PLC* A/c and LOLC Investments Limited** to be reduced from 23.42% to 15% level within a period of 15 years from 13 October 2009.

Twenty Largest Ordinary (Non-Voting) Shareholders as at 31 December 2017

Ordinary non-voting shares	2017		Comparative holdings of the top 20 holders in 2016	
	No. of shares	%	No. of shares	%
1. Lanka ORIX Leasing Company PLC	76,812,865	43.93	74,238,665	43.93
2. Employees' Provident Fund	9,326,028	5.33	9,013,489	5.33
3. Akbar Brothers (Private) Limited A/c No. 1	3,290,099	1.88	2,593,290	1.53
4. Deutsche Bank AG as Trustees for JB Vantage Value Equity Fund	3,229,262	1.85	2,031,656	1.20
5. J B Cocoshell (Private) Limited	3,215,920	1.84	-	-
6. Pershing LLC S/A Averbach Grauson & Co.	3,168,808	1.81	2,427,722	1.44
7. Mr E Thavagnanasooriyam and Mr E Thavagnanasundaram	2,672,628	1.53	2,649,968	1.57
8. Commercial Bank of Ceylon PLC/Dunamis Capital PLC	2,671,829	1.53	3,818,755	2.26
9. Employees' Trust Fund Board	2,124,675	1.22	596,222	0.35
10. Merrill J Fernando & Sons (Private) Limited	1,942,143	1.11	1,877,057	1.11
11. Mr N Balasingam	1,823,813	1.04	1,762,693	1.04
12. Lanka ORIX Information Technology Services Limited	1,522,613	0.87	1,471,587	0.87
13. Deutsche Bank AG – National Equity Fund	1,296,721	0.74	1,253,265	0.74
14. Deutsche Bank AG as Trustees for NAMAL Acuity Value Fund	1,189,875	0.68	1,150,000	0.68
15. Dr S Yaddehige	1,096,508	0.63	1,125,000	0.67
16. Mr R Gautam	890,500	0.51	821,500	0.49
17. HSBC International Nominees Limited – SSBT – Deutsche Bank AG Singapore A/c 1	888,352	0.51	858,581	0.51
18. Mr M J Fernando	879,473	0.50	850,000	0.50
19. Mr A P Somasiri	868,354	0.50	675,000	0.40
20. Miss S Durga	813,055	0.47	770,808	0.46
Total shares held by the top 20 holders – 2017	119,723,521	68.48	-	-
Balance shares held by other 6,668 ordinary non-voting shareholders – as at 31 December 2017	55,118,916	31.52	-	-
Total ordinary non-voting shares	174,842,437		168,983,009	
Total ordinary non-voting shareholders	6,688		6,866	

Shareholdings of Directors as at 31 December 2017

Directors' shareholdings including the Director/Chief Executive Officer's holding as at 31 December 2017 are given on page 77 of the Report of the Board of Directors.

Analysis of the Distribution of Shareholders as at 31 December 2017

Range of shareholding	Ordinary (Voting) shares			Ordinary (Non-Voting) shares		
	No. of shareholders	No. of shares	Percentage of shareholding %	No. of shareholders	No. of shares	Percentage of shareholding %
1 – 1,000	6,838	1,445,592	0.80	3,394	986,063	0.56
1,001 – 10,000	1,913	4,787,736	2.67	2,514	7,437,687	4.25
10,001 – 100,000	236	5,779,431	3.22	649	17,067,293	9.76
100,001 – 1,000,000	41	12,819,042	7.13	116	33,967,607	19.43
1,000,001 and Above	19	154,781,868	86.18	15	115,383,787	65.99
Total	9,047	179,613,669	100.00	6,688	174,842,437	100.00
Resident/non-resident						
Resident	8,904	177,147,870	98.63	6,606	163,351,667	93.43
Non-resident	143	2,465,799	1.37	82	11,490,770	6.57
Individuals/Institutions						
Individuals	8,756	32,127,546	17.89	6,384	44,936,503	25.70
Companies/Institutions	291	147,486,123	82.11	304	129,905,934	74.30

Ordinary Shares (Quoted)

	Voting (SEYB-N)		Non-Voting (SEYB-X)	
	2017	2016	2017	2016
No. of shares issued	179,613,669	175,977,401	174,842,437	168,983,009
Dividend (LKR per share)	Proposed: 3.50	Paid: 3.25	Proposed: 3.50	Paid: 3.25
Share prices				
Highest (LKR)	99.90	101.00	63.50	73.00
Lowest (LKR)	83.60	77.00	51.50	57.80
Last traded (LKR)	87.20	90.00	56.00	59.00
Percentage of Public Holding (%)	54.29	54.27	55.94	55.97

Debentures

Debentures 2013-2018

Listed on CSE in February 2013

(SEYB D178, D179, D180)	Type A 5-year debentures annual (15.50%)		Type B 5-year debentures (15.00%) Semi-annual		Type C 5-year debentures (14.50%) Monthly	
	2017	2016	2017	2016	2017	2016
No. of Debentures issued	10,909,100		8,430,200		660,700	
Debenture prices						
Highest (LKR)		107.68				
Lowest (LKR)	Not traded in 2017	102.69	Not traded in 2016 and 2017		Not traded in 2016 and 2017	
Last traded (LKR)		107.21				

Debentures 2014

Listed on CSE in December 2014

(SEYB D313, D314, D315, D316, D317)	Type A 4-year debentures (8.0% p.a.) semi-annual		Type B 5-year debentures (8.35% p.a.) semi-annual		Type C 5-year debentures (8.60% p.a.) annual		Type D 6-year debentures (8.60% p.a.) semi-annual		Type E 6-year debentures (8.75% p.a.) annual	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
No. of Debentures issued	4,622,800		300		18,665,200		25,055,200		3,005,200	
Debenture prices										
Highest (LKR)					Not traded in 2016 and 2017		Not traded in 2016 and 2017			
Lowest (LKR)	Not traded in 2016 and 2017		Not traded in 2016 and 2017				Not traded in 2016 and 2017		Not traded in 2016 and 2017	
Last traded (LKR)										

Debentures 2016

Listed on CSE in July 2016

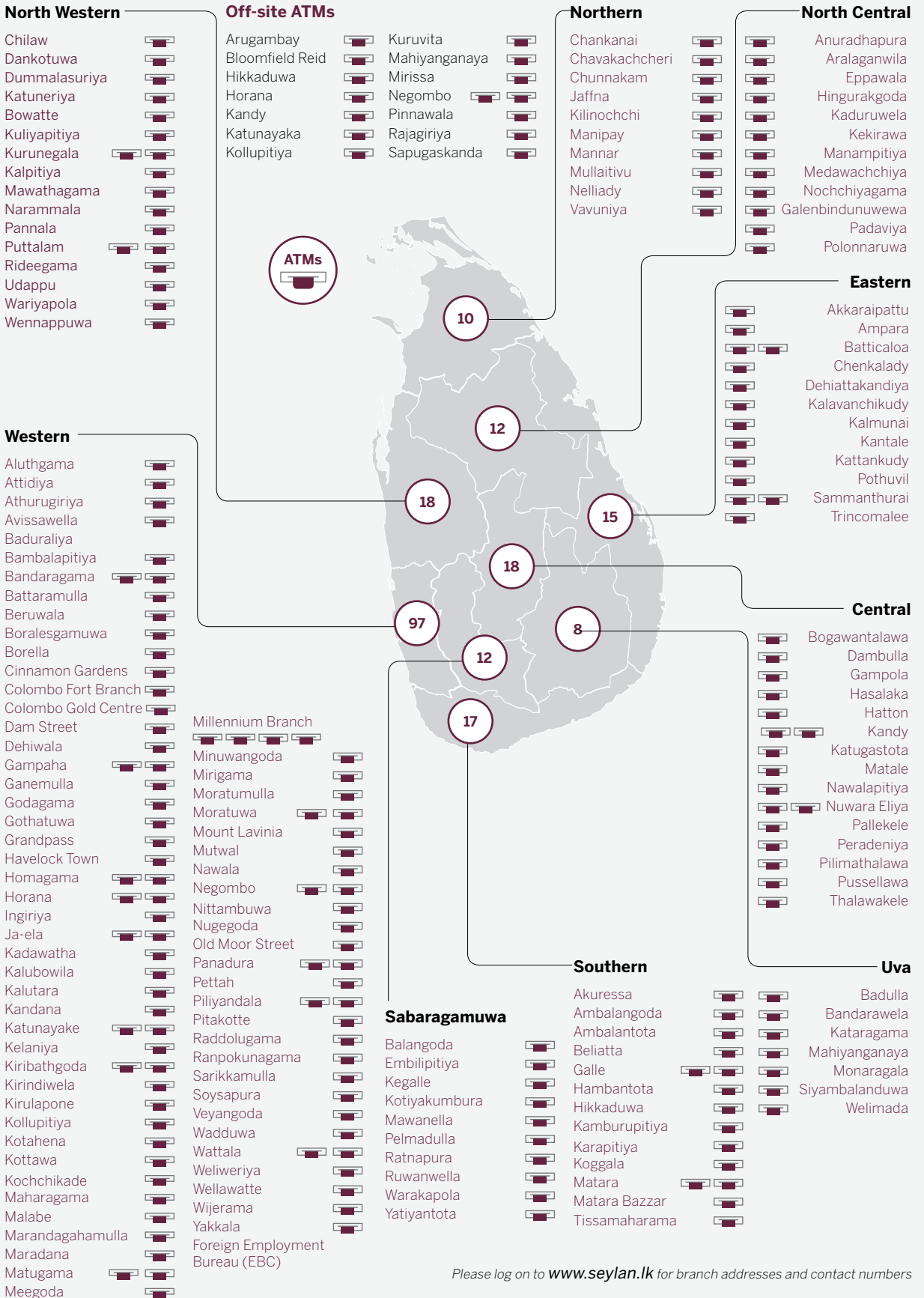
(SEYB D391, D392, D393)	Type A 5-year debentures (13.0% p.a.) semi-annual		Type B 5-year debentures [6 month T-Bill (gross) + 1.5% p.a.] semi-annual		Type C 7-year debentures (13.75% p.a.) semi-annual	
	2017	2016	2017	2016	2017	2016
No. of Debentures issued	17,103,200		174,000		32,722,800	
Debenture prices						
Highest (LKR)		101.00	101.00			
Lowest (LKR)	Not traded in 2017	101.00	101.00	Not traded in 2016		Not traded in 2016 and 2017
Last traded (LKR)		101.00	101.00			

Seylan Bank PLC – Debentures

	2017	2016
Debt (debentures)/equity ratio (times)	0.37	0.45
Debt (debentures plus long term debt)/equity ratio (times)	0.70	0.45
Interest cover (times)	5.69	6.42
Quick asset ratio (times)	0.77	0.72
2013-2018 issue		
Interest yield as at date of last trade		
Annual interest – 15.50% p.a. *(/7 October 2016)	*	14.46%
Semi annual interest – 15.00% p.a.	*	*
Monthly interest – 14.50% p.a.	*	*
Yield to maturity of trade done on		
Annual interest – 15.50% p.a. *(/7 October 2016)	*	9.52%
Semi annual interest – 15.00% p.a.	*	*
Monthly interest – 14.50% p.a.	*	*
Interest rate of comparable Government Security	8.04%	11.08%
2014 Issue		
Interest yield as at date of last trade		
4 Years fixed semi annual – 8.00% p.a.	*	*
5 Years fixed semi annual – 8.35% p.a.	*	*
5 Years fixed annual – 8.60% p.a.	*	*
6 Years fixed semi annual – 8.60% p.a.	*	*
6 Years fixed annual – 8.75% p.a.	*	*
Yield to maturity of trade done on		
4 Years fixed semi annual – 8.00% p.a.	*	*
5 Years fixed semi annual – 8.35% p.a.	*	*
5 Years fixed annual – 8.60% p.a.	*	*
6 Years fixed semi annual – 8.60% p.a.	*	*
6 Years fixed annual – 8.75% p.a.	*	*
Interest rate of comparable Government Security		
– 4 Years	8.96%	11.43%
– 5 Years	9.31%	11.77%
– 6 Years	9.66%	12.09%
2016 Issue		
Interest yield as at date of last trade		
5 Years fixed semi annual – 13.00% p.a.*/(24 August 2016)	*	13.29%
5 Years floating semi annual – six months treasury bill rate + 1.5% p.a.	*	*
7 Years fixed semi annual – 13.75% p.a. (9 March 2017)/*	14.22%	*
Yield to maturity of trade done on		
5 Years fixed semi annual – 13.00% p.a.*/(24 August 2016)	*	12.71%
5 Years floating semi annual – six months treasury bill rate + 1.5% p.a.	*	*
7 Years fixed semi annual – 13.75% p.a. (9 March 2017)/*	13.74%	*
Interest rate of comparable Government Security		
– 5 Years	9.76%	12.09%
– 7 Years	10.10%	12.41%

* Not traded during the period.

Branch Network



Please log on to www.seylan.lk for branch addresses and contact numbers

Geographical Analysis

Deposits, loans and receivables

As at 31 December 2017

Province	No. of Banking Centres	Deposits LKR Mn.	%	Loans and receivables LKR Mn.	%
Western	72	217,309	70.9	213,097	74.4
Southern	13	15,167	4.9	17,992	6.3
Uva	7	4,934	1.6	2,841	1.0
North-Central	12	6,886	2.2	4,478	1.6
North-Western	15	15,115	4.9	11,403	4.0
Eastern	12	8,826	2.9	8,045	2.8
Northern	10	7,514	2.4	5,561	1.9
Sabaragamuwa	10	13,551	4.4	9,883	3.4
Central	15	17,797	5.8	13,169	4.6
	166	307,099	100.0	286,469	100.0
Impairment allowance for loans and receivables – individual impairment		–		(1,744)	
Impairment allowance for loans and receivables – collective impairment		–		(3,863)	
Total	166	307,099		280,862*	

* Loans and receivables net of impairment.

Commitments and contingencies

As at 31 December 2017

Province	No. of Banking Centres	Acceptances LKR Mn.	Standby letters of credit LKR Mn.	Guarantees LKR Mn.	Documentary credit LKR Mn.	Bills for collection LKR Mn.	Forward exchange contracts (net) LKR Mn.	Total LKR Mn.
Western	72	10,375	78	21,042	9,219	2,984	(940)	42,758
Southern	13	62	–	1,467	157	116	–	1,802
Uva	7	–	–	192	2	–	–	194
North-Central	12	137	–	874	5	–	–	1,016
North-Western	15	331	–	775	525	80	–	1,711
Eastern	12	–	–	723	4	1	–	728
Northern	10	8	–	584	5	6	–	603
Sabaragamuwa	10	69	–	636	101	4	–	810
Central	15	137	–	1,211	292	199	–	1,839
Contingencies	166	11,119	78	27,504	10,310	3,390	(940)	51,461
Commitments – Undrawn credit Lines and capital Commitments								48,040
Total	166	11,119	78	27,504	10,310	3,390	(940)	99,501

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Glossary

A

Acceptances

The signature on a Bill of Exchange indicates that the person on whom it is drawn accepts the conditions of the bill. In other words, a Bill of Exchange that has been accepted.

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.

Available-for-sale investments

All assets not in any of the three categories namely held to maturity, fair value through profit or loss, and loans and receivables.

B

Bills of collection

A Bill of Exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

C

Capital adequacy

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlement (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

Capital gain (capital profit)

The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

Capital reserves

Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and reserve fund set aside for specific purposes defined under the Banking Act No. 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

Cash equivalents

Short-term highly liquid investments those are readily convertible to known amounts

of cash and which subject to an insignificant risk of changes in value.

Commitments (Undrawn credit lines)

Credit facilities approved but not yet utilised by the clients as at the reporting 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.

Cost to income ratio

Operating expenses as a percentage of total operating income.

Cost method

A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

Cost-push inflation

A continuous increase in average price levels due to an increase in production costs.

Credit ratings

An evaluation of a corporate ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

D

Held-for-trading investments

These are marketable securities acquired and held with the intention to resale over a short period of time.

Deferred tax

Sum set aside in the Financial Statements that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate), that has an initial net investment smaller than

would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

Dividend cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

Dividend yield

Dividend earned per share as a percentage of its market value.

Documentary credits (L/Cs)

Written undertakings by a bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

E

Earnings per Share (EPS)

The profit attributable to each ordinary share in the Bank, based on the profit for the period after tax and after deducting minority interest and preference share dividends.

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective tax rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

Equity method

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

F

Fair value

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Finance lease

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of whatever is being leased.

Foreign exchange contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

Foreign exchange income

The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the reporting date at prevailing rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

G

General provisions

General provisions are established for loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Gross dividend

The portion of profits distributed to the shareholders including the tax withheld.

Group

A group is a parent and all its subsidiaries.

Guarantees

A promise made by a third party (guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfil the contractual obligations.

H

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, foreign exchange rate, commodity prices, etc.).

Held-to-Maturity (HTM) investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a

fixed maturity that an entity has the positive intention and ability to hold to maturity.

I

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment allowance

Impairment allowance is a provision held as a result of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified as individual (specific) or collective (portfolio).

Intangible asset

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/ services or for rental to others or for administrative purposes.

Interest cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Interest spread

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

Investment properties

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

K

Key Management Personnel (KMP)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

L

Liquid assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills and Bonds.

M

Market capitalisation

The value of a company obtained by multiplying the number of issued shares by its market value as at a date.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of Financial Statements.

N

Net asset value per share

Shareholders' funds divided by the number of ordinary shares in issue.

Net Interest Income (NII)

The difference between the amount a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits refinance funds and inter-bank borrowings.

Net interest margin

The margin is expected as net interest income divided by average interest earning assets.

Non-controlling interest

Non-Controlling Interest is the equity in a subsidiary not attributable directly or indirectly to a parent.

Non-Performing Advances (NPA)

All loans are classified as non-performing when a payment is 90 days in arrears.

Non-Performing Advances Cover (NPA Cover)

Cumulative loan loss provision as a percentage of total non-performing advances (net of interest in suspense).

NPA Ratio (Net of IIS)

Total non-performing advances (net of interest in suspense) divided by total advances portfolio (net of interest in suspense).

O

Off-balance sheet transactions

Transactions that are not recognised as assets or liabilities in the Statement of Financial Position but which give rise to contingencies and commitments.

Open credit exposure ratio

Total net non-performing loans and advances expressed as a percentage of equity.

P

Parent

A parent is an entity that has one or more subsidiaries.

Price-Earnings Ratio (P/E Ratio)

The current market price of the share is divided by the earnings per share of the Bank.

R

Related parties

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Return on Average Assets (ROA)

Net income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

Return on Equity (ROE)

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue reserves

Reserves set aside for future distribution and investment.

Risk-weighted assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per Rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to Statement of Financial Position (or credit) equivalents and then by applying appropriate risk weighting factors.

S

Securities [Sold under Repurchase Agreement (REPO)]

This relates to Treasury Bills and Bonds sold subject to a commitment to repurchase

them at a predetermined price on a specified future date. Securities purchased under resale agreement (reverse REPO). These are loans collateralised by the purchase of Treasury Bills and/ or guaranteed commercial papers from the counterparty to which the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price on a specific future date.

Segmental analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

Shareholders' funds/equity

Total of issued and fully paid share capital and capital and revenue reserves.

Single borrower limit

30% of Total Regulatory Capital.

Statutory reserve fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Subsidiary company

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

T

Total Capital

Capital base is summation of the core capital (Tier 1) and the supplementary capital (Tier 2).

V

Value added

Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to Government by way of taxes and retained for expansion and growth.

Y

Yield to maturity

Discount rate at which the present value of future payments would equal the security's current price.

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හිතවත් කොටස් හිමිකාරහවතුනි,
 2017 වර්ෂයේදී සමූහයේ බදු ගෙවූ පසු ලාභය රුපියල් බිලියන 5ක් ලෙස වාර්තා කරමින් සෙලාන් සමූහය වැදගත් සංවිස්ථානයක් සනිටුහන් කළේය. වර්ෂය මුළුල්ලේ අඛණ්ඩ වර්ධනයක් සහ කාර්ය සාධනයක් පවත්වා ගැනීමට බැංකුව සමත්විය. එසේ අත්කර ගත් ප්‍රගතිය එළඹෙන වර්ෂවලදී බැංකුව ඉහළටම ඔසවා තැබීමට හේතු සාධක වනු ඇත.

මෙකී හිතකර ප්‍රතිඵලවලට සමගාමීව සිව් අවුරුදු උපායමාර්ගික සැලැස්ම 2017/2020 (සෙලාන් 2020) තුළින් ලාභදායීත්වය ඉහළ නංවා ගැනීමටත් අපගේ ගනුදෙනුකාරහවතුන් සමඟ පවත්නා සබඳතා තව දුරටත් ඉහළ නංවා ගැනීමටත් ඔවුන් බැංකුව සම්බන්ධයෙන් ලබන ධනාත්මක අත්දැකීම් තවදුරටත් වර්ධනය කරගැනීමටත් මෙය ඉවහල් වනු ඇතැයි අපේක්ෂා කෙරේ. පිරිවැය ඵලදායී අරමුදල් සම්පාදනය වැඩි දියුණු කිරීම, කුඩා හා මධ්‍යම පරිමාණ ව්‍යවසායන් පුද්ගල හා ආයතනික ව්‍යාපාර අංශ තව දුරටත් ව්‍යාප්ත කිරීම, සුහදශීලී කාර්යක්ෂම ශාඛා සංකල්පය හඳුන්වාදීම, ඩිජිටල්ගත කිරීම සහ තොරතුරු තාක්ෂණ පහසුකම් ශක්තිමත් කිරීම යන අංශ පිළිබඳව උපාය මාර්ගික සැලැස්ම අවධානය යොමු කර ඇත. මෙකී ප්‍රමුඛ ක්‍ෂේත්‍ර උපාය මාර්ගිකව ඒකාබද්ධ කිරීම මඟින් අප ශක්තිමත් බැංකුවක් වශයෙන් පමණක් නොව බැංකු ක්‍ෂේත්‍රයේ ක්‍රියාශීලී බැංකුවක් වශයෙන්ද ස්ථාවර වනු ඇතැයි අපි විශ්වාසය පළ කරමු.

අපගේ කාර්ය සාධනය

වර්ෂය මුළුල්ලේම අපගේ අවධානය යොමු වූයේ බැංකුවේ ප්‍රතිලාභය පිණිස පමණක් අධික වර්ධනයක් හඹා යාමකින් තොරව, තිරසාර සංවර්ධනයක් ලඟා කර ගැනීම කෙරෙහිය.

වසරේ පළමු කාර්තුව තුළ පැවති අවම ආර්ථික ක්‍රියාකාරීත්වය බැංකුවේ වර්ධන අවස්ථා යම් පමණකට සීමා කරවීය. එතකුළු වුවත්, බැංකුව සිය බදු ගෙවූ පසු ලාභය 10% කින් වර්ධනය කර ගැනීමට සමත් වූ අතර සමූහයේ බදු ගෙවූ පසු ලාභය ඉතිහාසයේ පළමු වරට රුපියල් බිලියන 5ක සීමාව පසු කළේය.

අභියෝගයන් හඳුනා ගනිමින්, අපගේ ආර්ථිකය, සමාජය සහ පරිසරය කෙරෙහි හිතකර ලෙස දායක වන වඩාත් තිරසාර ව්‍යාපාරයක් ගොඩනැගීමේ පිණිස සාමූහිකව ක්‍රියා කිරීම සඳහා බැංකුවේ ගනුදෙනුකාරහවතුන් සහ අනෙකුත් පාර්ශවකරුවන් සමඟ එක්ව ක්‍රියා කිරීම බැංකුවේ උපාය මාර්ගය විය. අපගේ

පාරිසරික සහ සමාජීය කළමනාකරණ ප්‍රතිපත්තියෙහි වගකිව යුතු මූලාශ්‍රය පිළිබඳව බැංකුවේ කැපවීම සම්බන්ධයෙන් විස්තර කෙරෙන අතර, බැංකුවේ පාරිසරික සහ සමාජීය අවදානම් ක්‍රමවත්ව කළමනාකරණය සඳහා රාමුවක් සම්පාදනය කෙරෙන පාරිසරික සහ සමාජීය කළමනාකරණ පද්ධතිය මඟින් එය තවදුරටත් ශක්තිමත් කෙරෙනු ඇත.

අපගේ පිය සටහන්

බැංකුවක් වශයෙන් දිවයින පුරා අපගේ ශාඛා ජාලය ව්‍යාප්ත කිරීම පිණිස අපි නිරන්තරයෙන් ක්‍රියාකර ඇත්තෙමු. ක්‍රියාත්මක වෙමින් පවතින බැංකු ශාඛා 166 අප සතු වන අතර, ඉන් බහුතරයක් මෑත දී නවීකරණය කරන ලද අතර, ගනුදෙනුකරුවා වෙත බැංකුව රැගෙන යාමේ උපාය මාර්ගය අනුගමනය කිරීම තුළින් අපගේ ව්‍යාපාරික කටයුතු වේගවත් වර්ධනයකට ලක් කිරීමේ තිරසාර අවස්ථාවක් අප විසින් උදා කරගෙන ඇති බව අපි විශ්වාස කරමු.

නියාමනය හා අධීක්ෂණය

Basel III ක්‍රමවේදය ක්‍රියාත්මක කිරීම සහ ශ්‍රී ලංකා ශිෂ්‍යුම් ප්‍රමිති SLFRS-09 අනුගමනය කිරීම මඟින් බැංකු කර්මාන්තයේ මෙහෙයුම් කටයුතු පිළිබඳව ඉහළ අවධානයක් යොමුවී ඇති අතර, වගකීම් පැවරීමක්ද නියම වී ඇත. බැංකුකරණය පිළිබඳ සියලුම කාරණා සම්බන්ධයෙන් අපගේ ප්‍රඥාගෝචර ප්‍රවේශය තුළින් මෙකී නියමයන්ට අනුකූලව ක්‍රියා කිරීම සඳහා මනා සූදානමකින් අප පසුවේ.

යහපත් ආයතනික පාලනය සහ අවධානම් කළමනාකරණ රාමුව කෙරෙහි වන අපගේ කැපවීම අවල වුවකි. ඒ සම්බන්ධයෙන් වන ඉහළම ප්‍රමිති අනුගමනය කිරීම අපගේ ආයතන සංස්කෘතිය තුළට කාවැද්දී ඇති අතර, ඒ තුළින් අවදානම සහ ප්‍රතිලාභ අතර යහපත් තුලනයක් සහිතව අප එම නියමයන්ට පූර්ණ වශයෙන් අනුකූලව ක්‍රියා කරනු බව තහවුරු කෙරෙනු ඇත.

අපගේ ඉදිරි උපායමාර්ගය

අපගේ උපාය මාර්ගික සැලැස්ම 2017/2020 සැලැස්ම කර ඇත්තේ බැංකුවේ වර්ධනය සහ තිරසාරකත්වය තවදුරටත් ඉහළ නැංවීමේ ගමන් මඟ විවර කරදීම සඳහා ය. අප ව්‍යාපාරික වගකීම් මැනවින් තෝරා ගනිමින් විවිධාංගීකරණය කිරීමත්, වර්ධනය කිරීමත්, අපගේ තිරණ ගැනීමේ ක්‍රියාවලි තුළ දුරදර්ශී බව ප්‍රගුණ කිරීමත් අපගේ අභිලාෂය වේ.

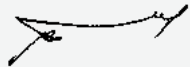
කතාඥතාව

2017 වසර මුළුල්ලේ අප ගමන් මඟ තුළ පාර්ශවකරුවන් ලෙස අප සමඟ ක්‍රියා කළ ප්‍රධාන විධායක නිලධාරී කපිල ආරියරත්න මහතා ඇතුළු සමස්ත කාර්යය මණ්ඩලයේ කැපවීම මහත්සේ අගය කරමි. ඔවුන් සියලුම දෙනා වෙත සුභාශිංශන පිරිනමමින් අප බැංකුව අසමසම සාර්ථකත්වයක් කරා රැගෙනයාමේ අප පොදු පරමාර්ථය සපුරා ගැනීම පිණිස ඔබ සැමගේ අඛණ්ඩ කැපවීම ඉදිරියටත් ලැබෙනු ඇතැයි අපේක්ෂා කරමි. තවද බැංකුවේ සාර්ථකත්වය වෙනුවෙන් ලබාදුන් නීති කැපවීම සහ දායකත්වය වෙනුවෙන් අධ්‍යක්ෂ මණ්ඩලයේ සියලුම සාමාජිකයින් වෙත ස්තූතිය පුද කිරීමට ද මෙය අවස්ථාව කර ගනිමි.

බැංකුවේ අධ්‍යක්ෂ මණ්ඩලයේ වසර 9ක දිගු සේවා කාලයක් නිම කරමින් මෙම වසරේදී විශ්‍රාම ගිය රියර් අද්මිරාල් ආනන්ද පීරිස් මැතිතුමා වෙත අධ්‍යක්ෂ මණ්ඩලය වෙනුවෙන් ස්තූතිය පුද කරමි.

අපගේ අගනා ගනුදෙනුකාරහවතුන්, කොටස් හිමිකාරහවතුන් සහ අනෙකුත් සියලුම පාර්ශවකරුවන් වෙත ස්තූතිය පුද කර සිටින අතර සාර්ථකත්වයේ හිඹිපෙත්ත කරා අප යන ගමනේදී ඒ සඳහා ඔබ සැමගේ දායකත්වය සහ සහයෝගය ලැබෙනු ඇතැයි අපේක්ෂා කරමි. බැංකුව සමඟ අඛණ්ඩව බැඳී සිටින ඔබ අපගේ ගමන් මඟ ශක්තිමත් කරන මහා බලවේගයයි.

සියලු කල්හි නිසි මාර්ගෝපදේශ සහ අවැසි සහයෝගය ලබාදීම වෙනුවෙන් බැංකු ක්‍ෂේත්‍රයේ නියාමන ආයතන වෙතද අපි අපගේ ස්තූතිය පළ කරන අතර, ඔබ සියලුදෙනා වෙත මාගේ ස්තූතිය මෙන්ම සුභාශිංශන ද පුදකර සිටිමි.



ඩබ්ලිව් එම් ආර් එස් ඩයස්
 සභාපති

2018 පෙබරවාරි 16

தலைவரின் கடிதம்

அன்பார்ந்த பங்குதாரர்களே,

செலான் குழுமம் 2017ஆம் ஆண்டில் வரிக்குப் பிந்திய இலாபமாக ரூபா. 5 பில்லியனை பெற்றதன் மூலம் ஒரு முக்கியமான சாதனையைப் புரிந்துள்ளது. வங்கியின் இடைவிடாத வளர்ச்சியும் சிறந்த செயற்பாடுகளும் கடந்த ஆண்டிலும் தொடர்ந்தன. இந்த உத்வேகம் எதிர்வரும் ஆண்டுகளில் வங்கியை மேலும் உயர்ந்த நிலைக்கு கொண்டு செல்லுமென எதிர்பார்க்கப்படுகின்றது.

இச்சாதகமான பெறுபேறுகளுடன் இணைந்ததாக ஆரம்பிக்கப்பட்டுள்ள 4 வருட 2017-2020 மூலோபாயத்திட்டம் (செலான் 2020) கூடுதலான இலாபத்தைப் பெறவும் வாடிக்கையாளர்களுடன் உறவுகளை அதிகரிக்கவும் அவர்களின் சாதகமான அனுபவங்களை மேம்படுத்தவும் உதவுமென எதிர்பார்க்கப்படுகின்றது. எமது மூலோபாயத்திட்டமானது சிக்கனமான நிதி திரட்டல் முறையை முன்னேற்றுவதில், சிறிய மற்றும் நடுத்தர நிறுவனங்கள் (SME), சிறுநளவு மற்றும் கூட்டாண்மை வியாபாரத்துறைகளை விரிவுபடுத்துதல், சிக்கனக் கிளை (lean branch) கோட்பாட்டை அறிமுகப்படுத்துதல், டிஜிட்டல் மயமாக்கல் மற்றும் எமது தகவல் தொழில்நுட்ப அமைப்புக்களைப் பலப்படுத்துதல் ஆகியவற்றில் விசேட கவனத்தைச் செலுத்தும். இந்த முக்கிய துறைகளை உள்ளடங்கும் மூலோபாயங்கள் எம்மை ஒரு வலிமையான வங்கியாக மாற்றுவதுடன் வங்கித் தொழிற்துறையில் சக்தி வாய்ந்த பங்காளியாகவும் மாற்றுமென நாம் நம்புகிறோம்.

எமது செயலாற்றுகை

பெயரளவிலான வெறும் வளர்ச்சியை நாடாமல் நிலைபெறு தன்மையுள்ள வளர்ச்சியை ஈட்டுவதிலேயே நாம் ஆண்டு முழுவதும் கவனத்தைச் செலுத்தினோம்.

ஆண்டின் முதல் அரைப்பகுதியில் பொருளாதார நடவடிக்கைகள் மந்தமாக இருந்தமை வங்கிக்கான வளர்ச்சி வாய்ப்புக்களுக்கு ஓரளவு தடையாக அமைந்தது. எனினும், வங்கியானது அதன் வரிக்குப் பிந்திய இலாபத்தில் 10% வளர்ச்சியைப் பெற்றது. குழுமத்தின் வரிக்குப் பிந்திய இலாபம் முதல்முறையாக ரூபா. 5 பில்லியனைத் தாண்டியது.

வாடிக்கையாளர்கள் மற்றும் ஏனைய பங்குதாரர்களுடன் தொடர்புகொள்வதன் மூலம் சவால்களைப் புரிந்துகொண்டு, எமது பொருளாதாரத்திற்கும் சமூகத்திற்கும் சுற்றாடலுக்கும் சாதகமான பங்களிப்பைச் செய்யக்கூடிய நிலைபெறு தன்மையான வியாபாரத்தைக் கட்டியழுப்புதற்குக் கூட்டாக முயற்சி செய்வதே வங்கியின் அணுகுமுறையாக

இருந்தது. எமது சுற்றாடல் மற்றும் சமூக முகாமைத்துவக் கொள்கையானது பொறுப்பு வாய்ந்த நிதியிடலில் வங்கி கொண்டுள்ள அக்கறையை எடுத்துக் காட்டுகிறது. வங்கியின் சுற்றாடல் மற்றும் சமூக இடர்களைக் கிரமமான முறையில் முகாமைத்துவம் செய்வதற்கான ஒரு கட்டுக்கோப்பை ஏற்படுத்தும் சுற்றாடல் மற்றும் சமூக முகாமைத்துவ முறைமையின் (ESMS) அமுலாக்கத்திற்கு உதவியாக இருக்கிறது.

எமது செயற்களம்

வங்கி என்ற முறையில் நாம் எமது செயற்பாடுகளைப் புவியியல் ரீதியில் விரிவுபடுத்தவே எப்போதும் விருப்புகிறோம். தற்பொழுது 166 வங்கி நிலையங்கள் இயங்கி வருகின்றன. இவற்றுள் அநேகமானவை சமீபத்தில் நவீன வசதிகள் கொண்டவையாகப் புனரமைப்புச் செய்யப்பட்டன. வங்கியை வாடிக்கையாளர்களிடம் கொண்டு செல்லும் உபாயத்தைக் கடைப்பிடிக்கும் நாம், எமது வியாபாரத்தை துரிதமாக முன்னேற்றுவதற்குக் கணிசமான வாய்ப்புக்களை உருவாக்கியுள்ளோமென நம்புகிறோம்.

பொருளாதாரச் செயற்பாடுகளை நாடெங்கும் பரவலாக்கும் நோக்கத்தை அரசாங்கம் அறிவித்திருப்பதால், எமது நாடளாவிய கிளை வலையமைப்பின் மூலம் உருவாக்கப்படும் வாய்ப்புகளிலிருந்து அனுசூலங்களைப் பெற்றுக்கொள்ள தயாராக இருக்கிறோம்.

ஒழுங்குபடுத்தல் மற்றும் மேற்பார்வை

Basel III இன் அமுலாக்கம், SLFRS-09 என்ற கணக்கியல் நியமத்தின் பிரயோகம் என்பவற்றின் காரணமாக வங்கித் தொழில் செயற்பாடுகள் மீது கூடுதல் கவனம் செலுத்தப்படுவதுடன் கூடுதல் பொறுப்புக்களும் சுமத்தப்பட்டுள்ளன.

நாம் வங்கித்தொழில் சார்ந்த சகல விடயங்களிலும் மதிநுட்பமான அணுகுமுறையைப் பின்பற்றுவதால், இந்த நிபந்தனைகள் அனைத்தையும் அனுசரிக்க நன்கு ஆயத்தமாக இருக்கிறோம்.

சிறந்த நிறுவன ஆட்சிமுறை, சிறந்த இடர் முகாமைத்துவக் கட்டுக்கோப்பு என்பவற்றில் நாம் ஆழ்ந்த அக்கறை கொண்டுள்ளோம். இவ் விடயங்களில் நாம் கடைப்பிடிக்கும் மிகவுயர்ந்த தராதரங்கள் எமது கலாசாரத்துடன் பின்னிப்பிணைந்துள்ளன. இடர்களுக்கும் வருமானத்திற்கும் இடையே ஆரோக்கியமான சமநிலையைப் பேணும் வகையில் பூரண இணக்கப்பாட்டையும் செயற்பாட்டையும் உறுதிப்படுத்துவதே இதன் நோக்கமாகும்.

எமது எதிர்கால மூலோபாயம்

வங்கி அதன் வளர்ச்சி மற்றும் நிலைபெறு தன்மையை மேலும் மேம்படுத்துவதற்காக ஒரு செயற்றிட்டத்தை ஏற்படுத்தும் முகமாகவே எமது மூலோபாயத்திட்டம் 2017-2020 வகுக்கப்பட்டுள்ளது. தெரிவு செய்யப்பட்ட முறையில் பன்முகப்படுத்தலை மேற்கொண்டு பொறுப்புணர்வுடன் வியாபாரத்தை முன்னேற்றுவதும் தீர்மானம் எடுக்கும் நடைமுறையில் மதிநுட்பத்தைக் கடைப்பிடிப்பதுமே எமது நோக்கமாகும்.

பாராட்டுதல்

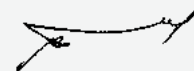
எமது 2017ஆம் ஆண்டுப் பயணத்தில் பங்காளர்களாக விளங்கிய பிரதம நிறைவேற்று அதிகாரி திரு. கபில ஆரியர்தன் அவர்களினதும் வங்கியின் சகல ஊழியர்களினதும் அர்ப்பணிப்பான சேவையை நான் நன்கறிவேன். அவர்கள் அனைவருக்கும் எனது பாராட்டுக்கள். எமது வங்கியை இணையற்ற உயர் நிலைக்குக் கொண்டு செல்லும் எமது பொதுவான குறிக்கோளை அடைய அவர்களின் தொடர்ச்சியான அர்ப்பணிப்புக் கிடைக்குமென நான் எதிர்பார்க்கிறேன். பணிப்பாளர் சபை அங்கத்தவர்களின் விசேட அர்ப்பணிப்பு மற்றும் பங்களிப்புக்கும் இச்சந்தர்ப்பத்தில் நான் நன்றி தெரிவிக்கிறேன்.

வங்கியின் பணிப்பாளர்கள் சபையில் ஒன்பது வருடங்கள் பணியாற்றிய பின்னர் இந்த ஆண்டில் ஒய்வு பெற்ற ரியர் அட்மிரல் ஆனந்த பிரீஸ் அவர்களுக்கு சபையின் சார்பில் நன்றி தெரிவிப்பதுடன், அவரின் எதிர்கால முயற்சிகளுக்கு எனது நல்வாழ்த்துக்களையும் தெரிவித்துக்கொள்கிறேன்.

எமது மதிப்பிற்குரிய வாடிக்கையாளர்கள், எமது பங்குதாரர்கள் மற்றும் எம்முடன் தொடர்பு வைத்திருக்கும் அனைவருக்கும் எமது நன்றிகள் உரித்தாகுக. உயர்ச்சியை நோக்கிய எமது பயணத்திற்கு உங்கள் ஆதரவும் உதவியும் தொடர்ச்சியாகக் கிடைக்க வேண்டுமென நாம் விரும்புகிறோம். உங்கள் தொடர்பு இந்தப் பயணத்தில் எமக்கு வலுவூட்டும் சக்தியாக அமையுமென்பதில் ஐயமில்லை.

எல்லா நேரங்களிலும் எமக்கு வழிகாட்டுதலும் உதவியும் வழங்கும் ஒழுங்குபடுத்துநர்களுக்கு எமது நன்றிகள்.

உங்கள் ஒவ்வொருவருக்கும் எனது மனமார்ந்த நன்றியும் நல்வாழ்த்துக்களும் உரித்தாகுக.



டபீன்பூ எம் ஆர் எஸ் டயல்
தலைவர்

2018 பெப்ரவரி 16

Circular to Shareholders

Dear Shareholder/s

First and final dividend for the year ended 31 December 2017 to be satisfied partly by the payment of cash and partly by the allotment and issue of new ordinary shares

Recommendation of a first and final dividend

The Board of Directors of Seylan Bank PLC ("the Company") is pleased to inform the shareholders of the Company that at the Meeting of the Board of Directors held on 16 February 2018, the Board recommended a first and final Dividend of Rupees Three and Cents Fifty (LKR 3.50) on each Ordinary (voting) share and Ordinary (non-voting) share for the financial year ended 31 December 2017. The Dividend is subject to due declaration and approval by the shareholders at the Company's Annual General Meeting ("AGM") to be held on Thursday, 29 March 2018. The dividend so declared will be satisfied:

- (i) partly by way of a payment in cash for a value of One Rupee (LKR 1.00) net of withholding tax of ten percent (10%) for each Ordinary (voting) and Ordinary (non-voting) share;
- (ii) partly by the allotment and issue of Ordinary (voting) and Ordinary (non-voting) share/s for a value of Rupees Two and Cents Fifty (LKR 2.50), net of withholding tax of ten percent (10%) for each Ordinary (voting) and Ordinary (non-voting) share;

and such dividend will be paid out of the profit of the Company for the year ended 31 December 2017 which said profit has been recorded under "retained earnings" of the Company's Statement of Financial Position as at 31 December 2017. The Company made a profit of LKR 4,430.398 Mn. for the year ended 31 December 2017.

The Board of Directors is confident that the Company will be able to satisfy the "Solvency Test" set out in Section 57 of the Companies Act No. 07 of 2007 ("the Act") immediately after the payment of such dividends and have signed

a Certificate of Solvency in terms of Section 56 (3). The Bank also obtained a Certificate of Solvency from its Auditors, Messrs KPMG.

The total amount of the dividend that is proposed to be so declared is Rupees One Billion Two Hundred and Forty Million Five Hundred and Ninety Six Thousand Three Hundred and Seventy One only (LKR 1,240,596,371.00). The dividend to be satisfied in the following manner:

Method of satisfaction	Total amount (LKR)
i. By way of a payment in cash	354,456,106.00
ii. By the allotment and issue of new Ordinary (voting) and Ordinary (non-voting) shares	886,140,265.00
Total	1,240,596,371.00

Issue of new ordinary shares

The Company proposes to satisfy the said dividend, partly by the issue of new Ordinary (voting) and Ordinary (non-voting) shares. The Company accordingly intends to allot and issue new Ordinary (voting) and new Ordinary (non-voting) shares to those shareholders who are registered in the Company's Share Register as well as those shareholders whose names appear on the Central Depository System (Pvt) Ltd. ("CDS") as at the end of trading on the date of the AGM (entitlement date) at which the resolution of the shareholders declaring the dividend is duly passed (hereinafter referred to as the "entitled shareholders"). In view of there been a deduction for dividend withholding tax of ten percent (10%) the monetary amount for which Ordinary (voting) and Ordinary (non-voting) shares would be issued is LKR 797,526,238.50. Accordingly, the shares to be allotted would be as follows:

- a. One new fully paid Ordinary (voting) share for every 40.0000064583 existing Ordinary (voting) shares; and
- b. One new fully paid Ordinary (non-voting) share for every 24.4444449570 existing Ordinary (non-voting) shares.

Consequently, a maximum of Four Million Four Hundred and Ninety Thousand Three Hundred and Forty One (4,490,341) new Ordinary (voting) shares and a maximum of Seven Million One Hundred and Fifty Two Thousand Six Hundred and Forty Five (7,152,645) new Ordinary

(non-voting) shares will be issued. Accordingly, the Ordinary (voting) shares in issue will increase from 179,613,669 to 184,104,010 and the Ordinary (non-voting) shares in issue will increase from 174,842,437 to 181,995,082. The Ordinary (voting) shares and Ordinary (non-voting) shares to be so issued shall not be eligible for the cash dividend to be declared which is referred to above.

The above-mentioned share ratio is based on a value of Rupees Ninety (LKR 90.00) per Ordinary (voting) share and Rupees Fifty Five (LKR 55.00) per Ordinary (non-voting) share respectively, which was the closing price of the respective shares as at the end of trading on 16 February 2018 (being the date on which the Board formally resolved to recommend the dividend to the shareholders). The Board is satisfied that the consideration for which the new shares are to be issued is fair and reasonable to the Company and to the existing shareholders of respective class of shares.

The new Ordinary (voting) shares and Ordinary (non-voting) shares to be so issued, shall, immediately consequent to due allotment thereof to the entitled shareholders, rank equal and *pari passu* in all respects with the existing issued and fully paid Ordinary (voting) shares and Ordinary (non-voting) shares of the Company, respectively. Consequent to the allotment and issue of such new shares, the stated capital of the Company will

increase from LKR 11,228,268,876.20 to LKR 12,025,795,114.70. Any difference in the stated capital arising due to the rounding-off of the number of shares to be issued will be considered together with the residual share fractions.

Fractions arising on allotment and issue of new shares

The residual share fractions arising from the aforementioned issue and allotment of new Ordinary (voting) shares and Ordinary (non-voting) shares will be aggregated and the Ordinary (voting) shares and Ordinary (non-voting) shares arising consequent to such aggregation will be allotted to a trustee to be nominated and appointed by the Board of Directors. The trustee so nominated and appointed will hold the said shares in trust and dispose such shares on the trading floor of the Colombo Stock Exchange (“CSE”) within a reasonable period of time. The sales proceeds arising therefrom shall be distributed to a charity or charities as shall be determined and approved by the Board of Directors.

Listing/Exchange Control approval

Pursuant to an application made by the Company to the CSE, the CSE has granted approval in principle for the listing of the new Ordinary (voting) and Ordinary (non-voting) shares on the official list of the CSE upon allotment. The Company will obtain approval of the Controller of Exchange “in principle” for the allotment and issue of new Ordinary (voting) and Ordinary (non-voting) shares to the Company’s non-resident shareholders, where applicable.

The allotment and issue of new shares

In the event that the shareholders pass the requisite resolution declaring the aforementioned dividend and its satisfaction partly by way of the allotment and issue of new Ordinary (voting) shares and Ordinary (non-voting) shares, the accounts of the shareholders whose shares are deposited in the CDS would

be directly uploaded with the new shares within 7 market days from and excluding the date on which the resolution is passed.

In calculating the number of shares held by a shareholder as at the entitlement date, the shareholding of such shareholder as appearing in the CDS and the Shareholders’ Register maintained by the Company will not be aggregated. However, if a shareholder holds shares with multiple stockbrokers the shares held with such stockbrokers will be aggregated for calculation purposes, and the shares arising as a result of the proposed allotment and issue of new shares will be uploaded proportionately to the respective CDS accounts held with each broker.

Dematerialisation of listed securities

In view of the Direction issued by the Securities and Exchange Commission of Sri Lanka pertaining to the dematerialisation of listed securities, shareholders who hold shares in scrip form (i.e. in the form of a share certificate) as per the Shareholders’ Register maintained by the Company will not be issued share certificates for the new shares allotted in their favour. Such shareholders are requested to open an account with the CDS and to deposit the share certificates in their possession in the CDS, prior to the date of the AGM, to enable the Company to directly deposit the new shares into such CDS account of the shareholder.

As regards the new Ordinary (voting) share and/or Ordinary (non-voting) share entitlements of those shareholders who fail or were unable to open an account with the CDS prior to the date of the AGM, the Company will register in the respective shareholder’s account in the Share Register maintained by the Company, the share entitlements allotted. If such shareholders open CDS accounts after the AGM and inform the Company Secretary in writing of the CDS account number, the Company will take steps to directly upload their respective CDS accounts with their new share entitlements.

Statement of Compliance

The Board of Directors hereby confirms that the allotment and issue of the new Ordinary (voting) shares and Ordinary (non-voting) shares is in compliance with the Articles of Association of the Company, the Listing Rules of the CSE and the provisions of the Companies Act No. 07 of 2007.

The Board of Directors emphasises that the aforementioned allotment and issue of new Ordinary (voting) shares and Ordinary (non-voting) shares is in part satisfaction of the first and final dividend for the year ended 31 December 2017 and shall be dependent and subject to the shareholders passing the resolution declaring the said dividend.

Notice of Annual General Meeting

The Annual Report of the Company and the Notice of the AGM scheduled to be held on Thursday, 29 March 2018 setting out in item 2 thereof, the relevant resolution to be passed by the shareholders in relation to the declaration of the stated dividend are circulated with this Circular to Shareholders.

Shareholders who are unable to attend the meeting in person are entitled to appoint a proxy to attend and speak and also vote on their behalf, depending on their voting rights. If you wish to appoint such proxy, kindly complete and return the enclosed Form of Proxy (in accordance with instructions specified therein) to the Registered Office of the Company not less than forty-eight (48) hours before the time scheduled for the holding of the AGM.

Yours faithfully,
By Order of the Board of Seylan Bank PLC



(Mrs) N N Najumudeen
Company Secretary
2 March 2018

Note: Please contact the Company Secretariat on +94 11 245 6380, +94 11 245 6396 or +94 11 245 6388 for any clarification/information.

Notice of Meeting

Notice is hereby given that the Thirty First Annual General Meeting of Seylan Bank PLC ("the Bank" or "the Company") will be held on Thursday, 29 March 2018 at 10.00 a.m. at the Samudra Ballroom, Taj Samudra Hotel, 25, Galle Face Centre Road, Colombo 03 for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the State of Affairs of the Company and the Audited Financial Statements for the year ended 31 December 2017 together with the Report of the Auditors thereon.

2. To declare a first and final Dividend for the financial year ended 31 December 2017 as recommended by the Board of Directors which said declaration is further explained in the Circular to Shareholders dated 2 March 2018 accompanying this Notice, and for this purpose to consider and if thought fit to pass the following resolution as an Ordinary resolution:

"THAT a first and final Dividend of a total sum of Rupees One Billion Two Hundred and Forty Million Five Hundred and Ninety Six Thousand Three Hundred and Seventy One only (LKR 1,240,596,371/-) which constitutes a Dividend of Rupees Three and Cents Fifty Only (LKR 3.50) per share be distributed to the holders of Ordinary (voting) and Ordinary (non-voting) shares as follows:

- (i) A sum of One Rupee (LKR 1.00) to be declared in cash on each Ordinary (voting) and Ordinary (non-voting) share, net of withholding tax ten percent (10%); and
- (ii) A sum of Rupees Two and Cents Fifty (LKR 2.50), net of withholding tax ten percent (10%) to be declared by way of the allotment of new Ordinary (voting) shares in the ratio of one new fully paid Ordinary (voting) share for every 40.0000064583 existing Ordinary (voting) shares held and one new fully paid Ordinary (non-voting) share for every 24.4444449570 existing Ordinary (non-voting) shares;

THAT such dividend be paid out of the profit of the Company for the year ended 31 December 2017 which said profit has been recorded under "retained earnings" of the Company's Statement

of Financial Position as at 31 December 2017.

THAT the shareholders entitled shall be those who are duly registered in the Company's Shareholders' Register as well as those shareholders whose names appear on the Central Depository Systems (Pvt) Ltd. as at the end of trading on the date of the Annual General Meeting;

THAT the total number of new Ordinary (voting) shares to be issued would be a maximum of Four Million Four Hundred and Ninety Thousand Three Hundred and Forty One (4,490,341) and the total number of Ordinary (non-voting) shares to be issued would be a maximum of Seven Million One Hundred and Fifty Two Thousand Six Hundred and Forty Five (7,152,645);

THAT the shares issued consequent to the allotment referred to above be listed on the CSE;

THAT the residual share fractions arising from the aforementioned issue and allotment of new Ordinary (voting) shares and Ordinary (non-voting) shares will be aggregated and allotted to a trustee who will dispose such shares on the trading floor of the CSE and the sales proceeds arising therefrom shall be distributed to a charity or charities as shall be determined and approved by the Board of Directors;

THAT the new Ordinary (voting) shares and Ordinary (non-voting) shares to be so allotted and issued shall not be eligible for the payment of the cash dividend declared hereby."

3. To re-elect as a Director, Mr I C Nanayakkara, who retires by rotation at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company. Mr I C Nanayakkara is the Deputy Chairman and a Non-Executive Director of the Bank appointed to the Board on 24 November 2009. His profile, Board subcommittee memberships and other directorships held are published on pages 19 and 81 respectively in the Annual Report.
4. To re-elect as a Director, Mr S P S Ranatunga, who retires at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company. Mr S P S Ranatunga is an Independent Director of the Bank and was appointed to the Board

on 12 January 2010. His profile and other directorships held are published on pages 20 and 82 respectively in the Annual Report.

5. To re-elect as a Director, Mr P L S K Perera, who retires by rotation at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company. Mr P L S K Perera is an Independent Director of the Bank appointed to the Board on 23 September 2013. His profile, Board subcommittee memberships are published on page 21 in the Annual Report. He did not and does not hold any directorship in other entities.
6. To re-appoint Messrs KPMG, Chartered Accountants as the Auditors of the Company for the ensuing year and to authorise the Board of Directors to determine their remuneration.
7. To authorise the Board of Directors to determine donations for 2018.
8. To consider any other business of which due notice has been given.

By Order of the Board of Seylan Bank PLC,



(Mrs) N N Najumudeen
Company Secretary
Colombo

2 March 2018

Please refer following instructions regarding attendance at the meeting:

Notes

- a. An Ordinary (voting) shareholder who is entitled to attend, speak and vote at the meeting is entitled to appoint a proxy to attend, speak and vote on his/her behalf.
- b. An Ordinary (non-voting) shareholder who is entitled only to attend and speak at the meeting is entitled to appoint a proxy holder to attend and speak on his/her behalf.
- c. A proxy holder need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose.
- d. The completed Form of Proxy should be deposited at the Office of the Company Secretary at Level 13, Seylan Towers, No. 90, Galle Road, Colombo 03 not less than 48 hours before the time appointed for the holding of the Annual General Meeting, i.e. before 10.00 a.m. on 27 March 2018. Only registered proxy holders will be permitted to attend the Annual General Meeting.
- e. Shareholders/proxy holders are requested to bring with them their National Identity Cards or any other form of valid identification (e.g. passport, driving licence) when attending the Annual General Meeting.

Corporate Information

Name of Company

Seylan Bank PLC

Company Registration Number

PQ 9

Registered Office and Head Office

Seylan Towers
No.90, Galle Road, Colombo 03

Tel : (94)-(11)-2456000

Fax : (94)-(11)-2456456

Swift : SEYBLKLX

email : info@seylan.lk

Website : www.seylan.lk

Legal Form

A public limited liability company incorporated in Sri Lanka on 28 August 1987 under the Companies Act No.17 of 1982 and re-registered under the Companies Act No. 07 of 2007 on 30 May 2007. Commenced business operations as a licensed commercial bank regulated under the Banking Act No.30 of 1988 (as amended) on 24 March 1988. Company was listed in the Colombo Stock Exchange on 5 January 1989.

Colombo Stock Exchange listing

The Bank's ordinary voting shares, ordinary non-voting shares and the rated, unsecured, redeemable debentures issued in the years 2013, 2014 and 2016 were listed on the Colombo Stock Exchange.

Accounting year end

31 December

Credit rating

The Bank has been assigned a A-(lka) national long-term rating by Fitch Ratings Lanka Limited.

Board of Directors

Mr W M R S Dias

Chairman/Non-Executive Director

Mr Ishara C Nanayakkara

Deputy Chairman/
Non-Executive Director

Ms M Coralie Pietersz

Independent Director/Senior Director

Mr Kapila P Ariyaratne

Director/Chief Executive Officer

Mr Samantha P S Ranatunga

Independent Director

Mr W D Kapila Jayawardena

Non-Executive Director

Mr P L S Kumar Perera

Independent Director

Mr S Viran Corea

Non-Executive Director

Mr Anushka S Wijesinha

Independent Director

Mrs Sandya K Salgado

Independent Director

*Independent Director, Rear Admiral
Ananda Peiris retired from the Board on
8 January 2018.*

Company Secretary

(Mrs) N N Najumudeen

ACIS (UK), ACCS (SL)

Auditors

Messrs KPMG,

Chartered Accountants

Subsidiary

Seylan Developments PLC
(Company Registration No. PQ 151)
Level 15, Seylan Towers
90, Galle Road, Colombo 03

For any clarifications on this Report, please contact:

The Chief Financial Officer
Seylan Bank PLC
Seylan Towers
90, Galle Road
Colombo 03

email : pmu@seylan.lk

Tel : (94)-(11)-2456371,
(94)-(11)-2456367

Fax : (94)-(11)-2452612



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This is an Integrated Annual Report

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Global Standard Annual Report Number®
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Form of Proxy

I/We*
of being a shareholder/s of Seylan Bank PLC
hereby appoint Mr/Mrs/Miss*
(N I C No.) of or failing him/her

- Mr Wadugamudalige Marius Ravindra Srilal Dias of Colombo 05, whom failing
- Mr Ishara Chinthaka Nanayakkara of Rajagiriya, whom failing,
- Ms Miriam Coralie Pietersz of Battaramulla, whom failing,
- Mr Kapila Prasanna Ariyaratne of Colombo 03, whom failing,
- Mr Samantha Pradeep Samarawickrama Ranatunga of Colombo 05, whom failing,
- Mr Waduthanthri Darshan Kapila Jayawardena of Battaramulla, whom failing,
- Mr Paththayame Lekamalage Sisira Kumar Perera of Seeduwa, whom failing,
- Mr Sri Kumaradas Viran Corea of Dehiwela, whom failing,
- Mr Anushka Sheran Wijesinha of Colombo 05, whom failing,
- Mrs Sandya Kumari Salgado of Panadura

as my/our* Proxy to represent me/us* and to vote on my/our* behalf at the Thirty-First Annual General Meeting of the Company to be held on Thursday, 29 March 2018 at 10.00am and at any adjournment thereof.

The preferences in the following table to be marked by Ordinary Voting Shareholder/s only.

I/We* the undersigned hereby authorise my/our* Proxy to vote for me/us* and on my/our* behalf in accordance with the preferences as indicated below (please mark your preference with an "X"):

	For	Against
1. To receive and consider the Annual Report of the Board of Directors on the state of affairs of the Company and the Audited Financial Statements for the year ended 31 December 2017 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final ordinary dividend for the financial year ended 31 December 2017 as recommended by the Board of Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect as a Director, Mr I C Nanayakkara, who retires by rotation in terms of Article 82 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect as a Director, Mr S P S Ranatunga who retires by rotation in terms of Article 82 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect as a Director, Mr P L S K Perera who retires by rotation in terms of Article 82 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-appoint Messrs KPMG, Chartered Accountants as the Auditors of the Company for the ensuing year and to authorise the Board of Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Board of Directors to determine donations for the year 2018.	<input type="checkbox"/>	<input type="checkbox"/>

(*Please delete the inappropriate words)

Signed this day of 2018.

.....
Signature/s of Shareholder/s

.....
Shareholder/s' NIC/Co. Reg. No.

Notes and instructions as to the completion of the Form of Proxy are noted on the reverse hereof.

Instructions for the completion of Form of Proxy

1. In terms of Article 63 of the Articles of Association of the Company the instrument appointing a proxy shall be in writing and
 - a. in the case of an individual be under the hand of the appointor or his attorney, or
 - b. if such appointor is a company or corporation shall be either under its common seal or under the hand of an officer or attorney authorised in that behalf in accordance with its Articles of Association or constitution.

In terms of Article 69, a company or corporation being a member of the company may appoint any of its officers or any other person to be its representative or proxy at any meeting or meetings of the company and any person so appointed shall be entitled to be present and vote and exercise all other powers in regard to any such meeting on behalf of the company or corporation which he represents as if he were a member holding the shares of such company or corporation.

(The Company may, but shall not be bound to require evidence of the authority of any such attorney or representative officer.)

2. The full name and address of the shareholder should be filled in legibly on the Form of Proxy together with the National Identity Card Number/Passport/Company Registration Number (as applicable).

Ordinary voting shareholders shall Indicate with an "X" in the space provided as to how your proxy is to vote on each resolution. If no indication is given, the Proxy shall exercise his/her discretion and vote as he/she thinks fit.
3. The completed Form of Proxy should be deposited at the Office of the Company Secretary at Level 13, Seylan Towers, No. 90, Galle Road, Colombo 03 at or before 10.00am on Tuesday, 27 March 2018 (i.e. not later than 48 hours before the time appointed for the holding of the Meeting).
4. If the Form of Proxy has been signed by an attorney, a copy of the Power of Attorney certified by a notary should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
5. If there is any doubt as to how the vote is to be exercised, by reason of the manner in which the Form of Proxy has been completed, no vote will be recorded by the Form of Proxy.

Seylan Bank PLC

Seylan Towers, No. 90, Galle Road, Colombo 03, Sri Lanka.

T: +94 11 245 6000 F: +94 11 245 6456 E: info@seylan.lk W: www.seylan.lk

Swift: SEYBLKLX