

IT'S A MATTER OF **HEART**

Seylan Bank PLC Annual Report 2018



Contents

- 4. About this Report**
- 6. Highlights**
 - 6._____ Financial Highlights
 - 7._____ Operational Highlights
- 8. Our Value Creation Strategy**
 - 8._____ Letter from the Chairman
 - 10._____ Letter from the Director/Chief Executive Officer
- 14. Our Value Creation Model**
 - 16._____ How We Create Value
 - 17._____ Why We Create Value
 - 18._____ What Creates Value
- 24. Our Value Creation Story**
 - 24._____ The Context
 - 26._____ Financial Value Creation
 - 38._____ Sustainability Assurance Report
 - 40._____ Informed Investors
 - 44._____ Satisfied Customers
 - 51._____ Motivated Employees
 - 63._____ Trusted Partners
 - 68._____ Responsible Corporate Citizenship
- 80. Sustainable Stewardship**
 - 80._____ Board of Directors
 - 86._____ Senior Management Team
 - 90._____ Corporate Governance
 - 137._____ Risk Management
- 163. Sustainable Results**
 - 164._____ Financial Calendar
 - 165._____ Statement of Directors' Responsibility for Financial Reporting
 - 166._____ Chief Executive Officer's and Chief Financial Officer's Responsibility Statement
 - 167._____ Independent Auditors' Report
 - 171._____ Income Statement
 - 172._____ Statement of Profit or Loss and Other Comprehensive Income
 - 173._____ Statement of Financial Position
 - 174._____ Statement of Changes in Equity
 - 178._____ Cash Flow Statement
 - 180._____ Notes to the Financial Statements
- 267. Annexes**
 - 268._____ Ten Years at a Glance
 - 269._____ Summary of Performance Indicators
 - 270._____ Statement of Comprehensive Income in US Dollars
 - 271._____ Statement of Financial Position in US Dollars
 - 272._____ Investor Information
 - 274._____ Seylan Bank PLC – Debentures
 - 277._____ Branch and ATM Network
 - 278._____ Geographical Analysis
 - 279._____ GRI Content Index
 - 282._____ Alphabetical Index
 - 283._____ Glossary
 - 286._____ Sinhala Translation of the Chairman's Letter
 - 287._____ Tamil Translation of the Chairman's Letter
 - 288._____ Circular to Shareholders
 - 290._____ Notice of Meeting
 - 292._____ Corporate Information
 - Enclosed – Form of Proxy
 - Enclosed – Investor Feedback Form

The background is a textured, golden-yellow color. On the left, there is a large, smooth, golden egg. On the right, there is a stylized, textured head of a goose, facing left, with a small, dark, diamond-shaped mark on its forehead.

IT'S A MATTER OF HEART

Cover: An artistic depiction of the
"Goose that laid the Golden Eggs"

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.



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.



www.facebook.com/seylanbank



twitter.com/seylanbank



www.linkedin.com/company/seylanbankplc

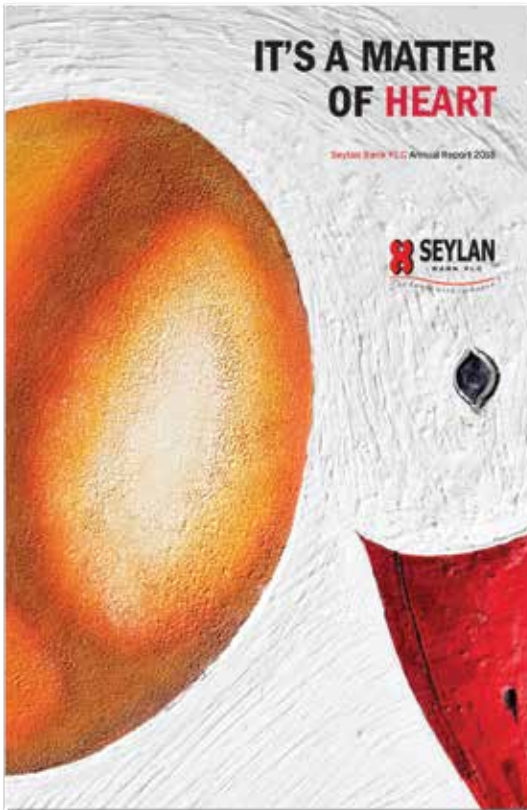


[instagram.com/seylanbanklk](https://www.instagram.com/seylanbanklk)



www.youtube.com/seylanmedia

About this Report



FORWARD LOOKING NARRATIVE

The Annual Report 2018 is a succinct account of the activities of the Bank during the year. It is designed to give a transparent view of the financial soundness and sustainability of its operations. “It’s a matter of heart” theme of this report is borne out by the approach taken by the Bank towards all its stakeholders to face challenges in the current market and economic conditions.

The contents of this report are organised to convey to the reader an understanding of the Bank’s underlying business model. The continuing financial viability of the Bank is a fundamental tenet of the model 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 recognised as a premier bank in Sri Lanka.

Information relating to its share ownership structure, identity and percentage of ownership appears on pages 272 to 274 in the “Investor Information” section of this Annual Report.

PRESENCE AND SCALE OF OPERATION

The Bank has a network of 170 banking centres, 207 ATMs and 98 student savings centres throughout the country. The Bank has a staff strength of 3,344 employees (including outbound sales staff) as at 31 December 2018.

We have established our presence in a number of overseas locations, Lebanon, Saudi Arabia and the United Arab Emirates, where we focus on the remittances business through exchange houses and banks in these countries.

The Group consists of a subsidiary, Seylan Developments PLC, in which the Bank holds an equity stake of 70.51%, as stated in the Note 27 to the Financial Statements. There were no significant changes in the size, structure, ownership or supply chain of the Bank during 2018.

BRANDS, PRODUCTS, SERVICES AND OPERATING STRUCTURE

The Bank's operating structure is 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
- Support functions (marketing, information technology, branch credit, credit administration, etc.)

A description of the Bank's products appears on pages 45 and 46 in 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 sixth Integrated Report and incorporates material information on economic, social and environmental performance 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) standards and is prepared in accordance with "core" criteria.

LIMITATIONS AND BOUNDARY

This Report mainly addresses sustainability topics, 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

The Annual Report of Seylan Bank PLC covers the 12 month period from 1 January to 31 December 2018. It is consistent with our usual annual reporting cycle for financial and sustainability reporting.

This Report presents performance of the Bank in a manner in which our stakeholders are able to get an all-inclusive 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 and inevitably leading to having a sustainable operation.

COMPARATIVE INFORMATION

The Annual Report 2018 follows our most recent report for the year ended 31 December 2017 for which you will find comparatives within the Report. 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 other than the changes to the accounting policies.

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. Their Sustainability Assurance Report appears on pages 38 and 39 in this Annual Report.

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

CONTACT PERSON FOR EDITORIAL INFORMATION

Ms Champika Dodanwela

Chief Financial Officer
Seylan Bank PLC

Tel : (94) 11 245 6358

Fax : (94) 11 245 2612

Email : champikad@seylan.lk

Financial Highlights

	Bank			Group		
	2018 LKR '000	2017 LKR '000	Change %	2018 LKR '000	2017 LKR '000	Change %
During the year						
Gross income	54,872,530	49,161,276	11.62	54,844,593	49,696,356	10.36
Profit before income tax	4,666,252	6,656,451	(29.90)	4,687,124	7,284,923	(35.66)
Income tax expense	1,477,046	2,226,053	(33.65)	1,536,268	2,281,292	(32.66)
Profit attributable to equity holders of the Bank	3,189,206	4,430,398	(28.02)	3,137,243	4,816,834	(34.87)
Other comprehensive income for the year, net of tax	(616,711)	2,425,819	(125.42)	(520,242)	2,406,845	(121.62)
Total comprehensive income attributable to equity holders of the Bank	2,572,495	6,856,217	(62.48)	2,588,552	7,229,275	(64.19)
Revenue to Government	3,590,336	4,121,259	(12.88)	3,649,558	4,166,265	(12.40)
Gross dividend*	915,248	1,240,596	(26.23)	915,248	1,240,596	(26.23)
At the year end						
Total equity attributable to equity holders of the Bank	34,609,799	34,205,923	1.18	36,246,906	35,826,973	1.17
Retained earnings	19,798,647	17,178,024	15.26	20,419,229	17,818,539	14.60
Customer deposits	357,560,187	307,098,902	16.43	357,560,187	307,098,902	16.43
Customer loans and advances	326,882,538	280,861,907	16.39	326,882,538	280,861,907	16.39
Total assets	466,933,018	408,125,839	14.41	469,661,496	409,983,755	14.56
Information per ordinary share						
Basic/diluted earnings per share (LKR)	8.71	12.10	(28.02)	8.57	13.16	(34.87)
Basic/diluted earnings per share excluding additional gratuity expense (LKR)	10.94	12.10	(9.59)	10.80	13.16	(17.93)
Dividends (LKR)*	2.50	3.50	(28.57)	2.50	3.50	(28.57)
Net assets value per share (LKR)	94.54	96.50	(2.03)	99.01	101.08	(2.05)
Market value (LKR) – as at end of the year						
Voting shares	78.00	87.20	(10.55)	-	-	-
Non-voting shares	44.50	56.00	(20.54)	-	-	-
Statutory ratios (%)						
Capital adequacy and Basel III						
Common Equity Tier 1 capital ratio (Minimum requirement – 2018 – 6.375%, 2017 – 5.75%)	10.20	11.16	(8.60)	10.37	11.39	(8.96)
Total Tier 1 capital ratio (Minimum requirement – 2018 – 7.875%, 2017 – 7.25%)	10.20	11.16	(8.60)	10.37	11.39	(8.96)
Total capital ratio (Minimum requirement – 2018 – 11.875%, 2017 – 11.25%)	13.30	13.25	0.38	13.40	13.46	(0.45)
Liquidity coverage ratio – Rupee (%) (Minimum requirement – 2018 – 90%, 2017 – 80%)	128.76	160.30	(19.68)	-	-	-
Liquidity coverage ratio – All currency (%) (Minimum requirement – 2018 – 90%, 2017 – 80%)	92.15	121.94	(24.43)	-	-	-
Liquidity						
Liquidity – Domestic Banking Unit operations (%) (Minimum requirement – 20%)	21.44	23.57	(9.04)	-	-	-
Liquidity – Foreign Currency Banking Unit operations (%) (Minimum requirement – 20%)	22.08	37.08	(40.45)	-	-	-
Other ratios						
Price earnings ratio – voting (Times)	8.96	7.21	24.27	-	-	-
– non-voting (Times)	5.11	4.63	10.36	-	-	-
Price earnings ratio – voting (Times) excluding additional gratuity expense (LKR)	7.13	7.21	(1.11)	-	-	-
– non-voting (Times) excluding additional gratuity expense (LKR)	4.07	4.63	(12.10)	-	-	-
Dividend cover (Times)*	3.48	3.57	(2.52)	-	-	-

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

Operational Highlights



Informed Investors

Our performance and the value we add to our shareholders, are measured through the growth expressed in our Key Performance Indicators

LKR **94.54**

Net assets value per share

LKR **8.71**

Earnings per share

LKR **11.25** Bn.

Net cash generated from operations

10.76%

Increase in total operating income



Customers

One of our primary areas of focus is to constantly exceed our customers' expectations

170

Banking centres

207

ATMs

12

SME hubs

199

Relationship officers throughout the country

1.65 Mn.

Number of visitors to the corporate web

Over **76%**

Customer satisfaction



Employees

Our employees enjoy equal opportunities and an environment that is diverse and free of discrimination

3,344

Total number of employees (including outbound sales force)

57% | 43%

Male Female ratio

74%

Increase in participants on training



Trusted Partners

We are committed to strengthening relationships that are mutually beneficial, with our business partners

>500

Correspondent banks

90%

Locally registered suppliers

LKR **230** Mn.

Worth of services obtained from vicinity of branches



Social and Environmental

Our commitment to developing the community and meeting our obligations to the environment, are embedded in the culture of our organisation

183

Number of "Seylan Pahasara" libraries opened in schools

ESMS

In pilot run having developed ESMS policy and procedures

LKR **23.51** Mn.

Educational and community related sponsorships

63,892 Kg

Paper recycled

Letter from the Chairman



**TOTAL
ASSETS
OVER**

LKR

466 Bn.

14%
GROWTH IN
TOTAL ASSETS

Seylan 2018 performance reflected a year of reshaping and strengthening, against a backdrop of unforeseen challenges.

Dear Stakeholders,

2018 was undoubtedly a challenging year. Global economic, financial and geopolitical developments as well as several domestic challenges impacted the overall macroeconomic stability.

Seylan 2018 performance reflected a year of reshaping and strengthening, against a backdrop of unforeseen challenges. We are well-positioned now to drive further value for our stakeholders.

Seylan Bank achieved a Profit after tax of LKR 3.2 Bn. in 2018 while managing to resolve a long-standing issue relating to additional gratuity.

We have made considerable progress in implementing our Strategic Plan, developing our retail and corporate business segments, streamlining the operations of our branch network, and strengthening our IT platforms to cater to increased digitalisation of our operations. The enhanced speed of operation and customer services will no doubt augment positively on our customer convenience. We believe our geographical presence in the market place, coupled with the advances in technology fuelled processes, will position our Bank as a major participant in the industry.

OUR PERFORMANCE

The challenges presented by adoption of the accounting standard SLFRS 9 and the finalisation of a long-standing issue relating to additional gratuity to a majority of current employees, affected our financial results this year. Accounting for these in the current year has however, placed the Bank in a strong position for the future.

Global economic growth has been reasonably strong but world output from the Advanced Economies is expected to taper next year. Challenges from global economic, financial and geopolitical developments adversely affected the external sector in the Sri Lankan economy. This presented challenges to our customers which in turn flowed through to our operations. Through our responsible management approach, we were able to support many customers in the SME sector to withstand the instability in the market.

OUR FOOTPRINT

We, as a Bank, continue to expand our footprint geographically. With 170 banking centres, we have enhanced the customer experience by developing our Relationship Officer concept that commenced in the previous year. We have thus positioned ourselves well to take advantage of the Government's approach to spreading economic activity across the country.

Our Environmental and Social Management Policy articulates the Bank's commitment to responsible financing. It is also supported by the Environmental and Social Management System (ESMS) which sets out the framework in managing the environmental and social risks at the Bank.

REGULATION AND SUPERVISION

The Bank has implemented Basel III and SLFRS 9 successfully while improving our impairment provisioning cover, open credit exposure and other ratios. The sound financial fundamentals helped the Bank to meet those regulations effectively.

However, we are aware that these two regulatory obligations will present challenges in the years ahead. Achieving a balance between generating additional business, whilst conforming to the limits placed and ensuring good quality outcomes, are now more demanding, in exercising our responsibilities.

OUR FUTURE STRATEGY

The Strategic Plan underpins our approach to the years ahead. We have strengthened the foundations of the Bank and are well placed to grow and sustain our operations in a responsible

manner. It is our intention to selectively diversify in the process of growing our business and continue to exercise prudence in our decisions.

The fundamentals of the Strategic Plan remain our focus, as we pursue more cost-effective funding through our innovative products, whilst offering solutions to those SMEs who are experiencing financial difficulties in a challenging environment.

APPRECIATION

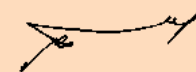
I appreciate the dedication of our Chief Executive Officer, Mr Kapila Ariyaratne, the Management and staff of the Bank who have steadfastly pursued our goals in 2018. I congratulate them all for their commitment to the successful operations of the Bank. I also take this opportunity to thank all members of the Board for their commitment and contribution.

On behalf of the Board, I thank Mr Ishara Nanayakkara, Deputy Chairman of the Bank, who resigned this year after completing nearly 9 years on the Board of the Bank, and Mr Samantha Ranatunga who retired after completing 9 years on the Board. Their contribution to the progress of the Bank and their unreserved commitment to guiding its sustainability have been outstanding. I wish them both, all good wishes for the future. We also welcome Mr Krishan Thilakaratne as a non-executive director, Mr Ravindra Abeyseriya as an independent director and Mr Ravindra Tissera as an alternate director to deputy chairman Mr Kapila Jayawardena. I am confident that their extensive experience will add tremendous value to the Bank.

I thank all our valued customers, shareholders and all other stakeholders for their patronage and support. Your association with the Bank is a source of strength and confidence to our operations.

I 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

18 February 2019

Letter from the Director/ Chief Executive Officer



DEPOSITS
OVER

LKR

357 Bn.

16%
GROWTH IN
DEPOSITS

The solid foundations laid over the past few years by the Bank helped it to maintain a steady growth in 2018 despite the diverse challenges presented by the operating environment.

THE SEYLAN BANK

2018 marks 30 years of Seylan Bank's operations.

Our achievement is not in the number of years, but in the contribution it has made to the country, the economy, the industry, to our employees, and all other stakeholders. The journey has not always been smooth, but the loyalty, hard work and commitment shown by our staff and our close relationship with our customers has been the foundation that has seen us face these challenges effectively and emerging as a sustainable organisation. Many individuals and particularly the SME sector, have been facing tough times in the recent past. Our Bank continues to stand by these customers to nurture and support them until they "cross the bridge" and are able to stand on their own two feet again. In a way our Bank is now reciprocating the faith shown by our main stakeholders and the community, by being the "Bank with a Heart".

A SUSTAINABLE OPERATION

Seylan 2020, our strategic plan, was designed to enhance our reach to retail and SME customers, build our low cost funds base, improve efficiencies at branches, augment our corporate banking proposition and digitalise our operations and channels while strengthening the capabilities of our risk management, compliance, technology and other support functions.

This plan was the cornerstone in our operations this year, even as we faced many challenges in the prevalent external environment. Most significantly, it has resulted in our staff reaching out to both existing and potential clients proactively thus enhancing customer acquisition and cross sell while sharpening transaction turnaround times.

EFFECT OF THE ECONOMY ON THE BANK

The performance of the Bank and indeed the entire banking industry are closely related to the economic environment in which it operates. The financial and geopolitical tensions in the global economy have had a flow-on effect on Sri Lanka and affected our external sector adversely. In addition, local economic growth continued to be below par.

However, there were some positives to celebrate during the year.

Favourable weather conditions saw performance in the agricultural sector improve and the country benefited from increased earnings from tourism.

The political upheavals in the latter quarter of the year, unfortunately retarded some of the progress the country's economy had made during the year. This transcended into reduced

ADVANCES OVER LKR

3.2

The deployment of 20 Multi Service Counters and 29 Cash Deposit Machines during the year has been another step forward in our pursuit to enhance customer convenience through increased digitalisation of our services.

economic activity and additional stress in many sectors resulting in a deterioration of the portfolio quality that was mirrored across the industry.

We put a lot of time and effort to support those individuals and businesses that experienced hardship, to help them overcome adversity and maintain viability until things return to normal and they are in a position to grow and prosper.

OUR 2018 PERFORMANCE

The Bank recorded a profit after tax of LKR 3.2 Bn. for the year. While this is below that which we achieved the previous year, it was affected by major one-off events, such as the added provision for impairment of loans and advances required by SLFRS 9 and the settlement of a long outstanding staff issue, which eliminated a contingent liability that has been disclosed over many years. The Bank has been able to overcome these obstacles and succeed in moving forward and hopes to regain the momentum of the recent past. Accounting for these added charges against our profit and yet showing a substantial after-tax profit of LKR 3.2 Bn. is evidence of the resilience that the Bank has built up.

During the year, in keeping with our blueprint "Seylan 2020", we have expanded the digitalisation of our operations, condensed the processing time of loan applications through Loan Originating System (LOS) and SME hubs, reduced the use of paper through increased electronic communication

206 Bn.

and continued our Corporate Social Responsibilities unabated. We have also expanded the number of front-line officers through increased training of Relationship Officers at our branches. We also built a very dynamic sales force that has contributed immensely to build our retail brand and products and we expect them to be a key contributor in the coming year.

The Bank continues to achieve consistent growth in its underlying business with both deposits and advances increasing by over 16% during the year. Our Total Assets grew by 14% and presents the foundation for stability, as we pursue the growth of the Bank in a responsible and sustainable manner.

OUR FOOTPRINT

170 banking centers and 207 ATMs, situated throughout the country, demonstrate the reach the Bank has achieved over the past three decades. The deployment of 20 Multi Service Counters and 29 Cash Deposit Machines during the year has been another step forward in our pursuit to enhance customer convenience through increased digitalisation of our services and simplification of processes.

The refurbishment of our branches continues, with the aim of making interactions with the Bank, more convenient and efficient for our customers. The roll out of 12 SME Hubs will enhance our focus on this sector, which we are committed to support.

CAPITAL

The implementation of SLFRS 9, resulting in accelerated provisioning for doubtful debts and the increase in the effective tax rate on banks will lead to lower profitability of the banking sector. In addition, uninspiring economic growth forecasts can also present a challenge to the growth of banks and their ROE. These factors will be a major challenge in meeting increased regulatory capital requirement under Basel III. Seylan has a clear action plan to meet and exceed the required minimum regulatory capital and liquidity requirements at all times.

CORPORATE SOCIAL RESPONSIBILITY

The Environmental and Social Risk Management System (ESMS) which is currently at the pilot phase will be fully implemented in 2019 with an objective to manage the environmental and social impacts arising from our financing activities. ESMS supports the transition towards a greener economy with prudent risk management tools, creating space for financing more green projects and confirming the Bank as a socially responsible, economically viable and environmentally friendly financial institution.

The Bank also continued fostering education which has been the primary choice and centre of attention of CSR activities. Our investment in the "Seylan Pahasara" library project continues with the addition of a further 30 libraries in 2018.

APPRECIATION

Our achievements are the culmination of the efforts expended by every member of the organisation from the Chairman and the Board of Directors to the most junior employee. Their commitment to constantly reach higher standards set by the Bank is a consequence of the ownership of our common goals by all and the realisation that positive results need positive contributions by everyone.

I thank our Chairman and the Board of Directors, Corporate and Executive Management and all members of our staff for their unreserved commitment and contribution at all times. My appreciation and gratitude extend to our shareholders, our customers and all other stakeholders who continue to support and place their trust in Seylan Bank, year after year. They are a source of inspiration that spurs the Bank to keep moving forward relentlessly. We look forward to our ongoing engagement with all of them, as we continue this journey further and higher and grow stronger each year.



Kapila Ariyaratne
Director/Chief Executive Officer

18 February 2019

VALUE CREATION MODEL

Value Enablers (Inputs)

Investor Capital

- Resilient business management
- Shareholders' funds of LKR 35 Bn.
- Local and foreign borrowings of LKR 26 Bn.
- Debentures of LKR 16 Bn.

Customer Capital

- 170 banking centres
- Wide range of customised products and services
- Benchmarked service quality standards
- Streamlined internal processes and controls
- Digitalisation and state-of-the-art delivery channels
- Efficient and effective customer complaints handling process
- Advocacy on financial literacy for well informed balanced decision-making

Employee Capital

- 3,344 staff strength including outbound sales force
- Over 13 years of average service period, extensive training and development
- Talented and skilled staff
- Diversity and gender equality
- Recognition and rewards
- Compliance with ILO core labour standards
- Employees' ideas linked to business development
- Efficient and effective grievance handling mechanism

Supplier and Business Partner Capital

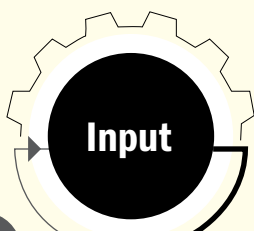
- Over 500 active correspondent relationships
- New alliances and collaborations
- Ethical service agreements
- Sustainable engagements

Social and Community Capital

- Education centric CSR projects and assessments
- Other CSR Projects
- Community donations and Sponsorships
- Compliance
- Empowerment of women and youth
- Initiatives to enhance financial literacy level
- Prudent finance to micro, small and medium entrepreneurs
- Social impact assessment through Environmental and Social Risk Management System (ESMS)

Environmental Capital

- Assessment of environmental and social impact and due diligence through ESMS
- Energy saving initiatives
- Recycling efforts
- Compliance with local and international best practices and performance standards



Value Creation Processes (Processes)

Vision, Mission and Values

Strategies and Objectives

Main Business Units

- Branch Banking
- Corporate and Offshore Banking
- Retail Banking
- Treasury
- International and Trade Finance

Our main activities

- Financial intermediation
- Maturity transformation

Our Support Services

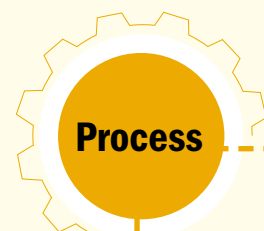
- Human resources
- Marketing
- Information technology
- Operations
- Branch credit/credit administration
- Recoveries
- Compliance
- Legal
- Finance
- Internal audit
- Supplies, premises, and maintenance

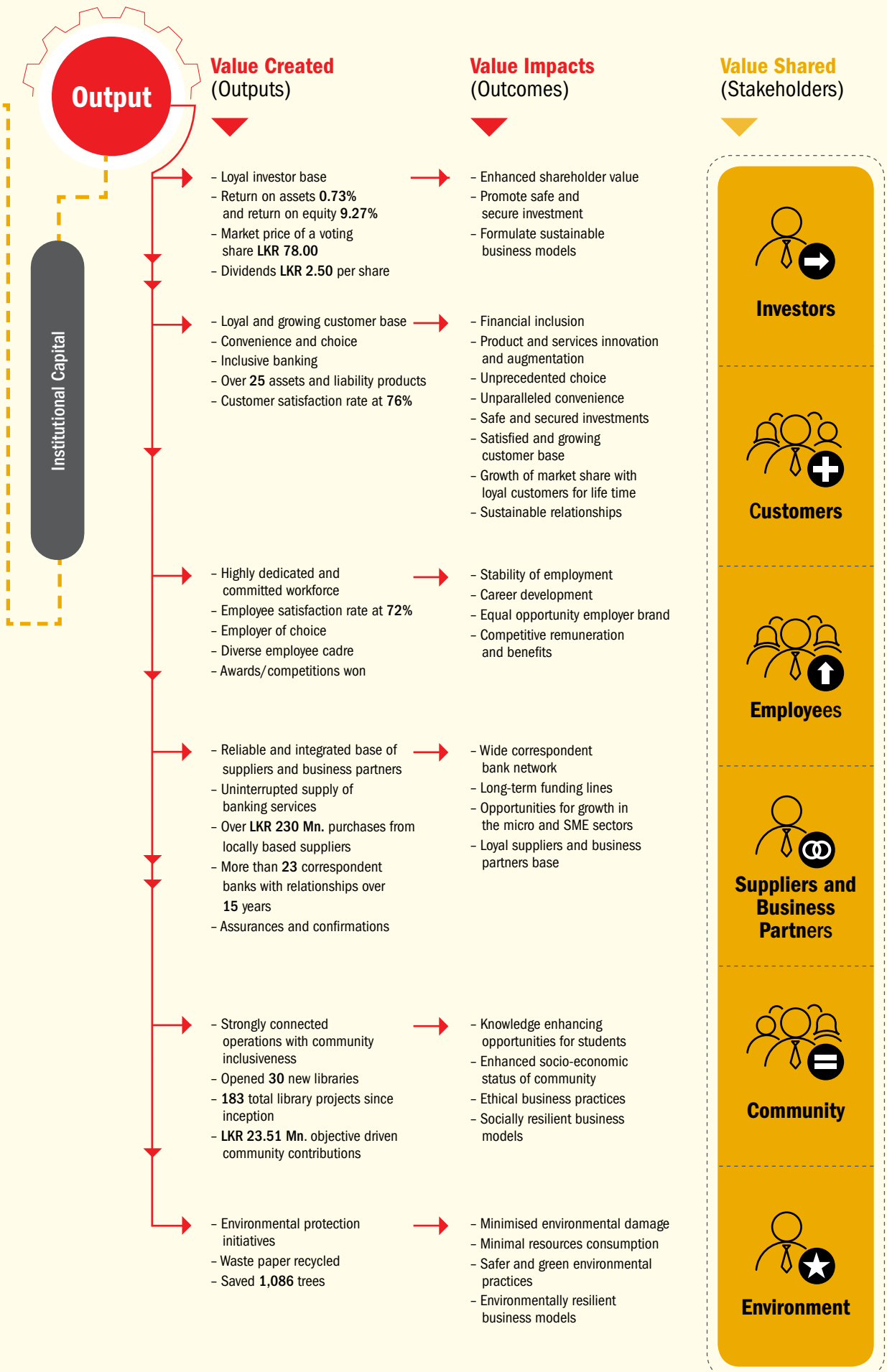
Integrated Risk Management

Corporate Governance and Social Responsibility

Subsidiary

- Seylan Developments PLC





How We Create Value

We create value to our stakeholders by leveraging all forms of capital while applying corporate ethics in all our operations

We bring together individuals and organisations who require financial services in a way that can support the sustainability and help the enterprises grow, which in turn enhance their living standards.

These financial services are centered around accepting deposits of money and paying a market-related return, lending funds to facilitate investment and consumption, and making available the facilities to meet transactional banking requirements, factoring, currency services etc.

Five business units, namely branch banking, corporate and offshore banking, retail banking, treasury, and international and trade finance provide these services. These business units are assisted by a number of support services and inputs of capital from investors, customers, employees, suppliers and business partners, social and community and the environment.

The provision of these services generate income from interest, fees, and commissions.

INSTITUTIONAL CAPITAL

Institutional capital, which comprises intellectual property, organisational knowledge, systems and procedures,

brand value, corporate culture, business values, and ethics and integrity, is the cornerstone of the Bank's operations. This enables the Bank to leverage all other forms of capital to effectively and efficiently achieve its corporate goals and deliver value to its stakeholders.

CORPORATE CULTURE AND VALUE

Seylan Bank has been known to be the "Bank with a Heart". In a year which has presented many challenges not only to the Bank but also to its customers, it has practised its tagline, continued to maintain its relationships with its customers, and nurtured them through the year. This approach has differentiated our Bank within the industry and enhanced its recognition amongst its stakeholders.

SYSTEMS, PROCESSES, AND TECHNOLOGIES

Our approach to leveraging digital platforms to augment customer experience and convenience has continued unabated throughout the year. We have implemented a long-term programme, geared towards improving security, customer experience, and functionality to ensure high availability of all digital services in a more secured environment. To this end, 2018 saw an

enhanced integration of the infrastructure architecture.

COMPLIANCE

Exercising its fiduciary responsibility by complying with the legal provisions and regulatory directions governing our operations, is fundamental. These requirements are embedded into the culture of the Bank at all levels and are integral to its practices.

BUSINESS ETHICS AND INTEGRITY

The Bank's internal control system is structured towards ensuring accuracy, minimising errors, omissions and fraud. It is essential to operate and present the Bank as a reliable and long-term business partner.

ANTI-CORRUPTION

The Bank has an uncompromising commitment to prevent and eliminate possibilities of corrupt behaviour. A Code of Conduct, including provisions relating to anti-corruption, are instilled amongst all staff and reiterated through continuous reviews and updates. The application of these principles is monitored throughout all business operations. We are delighted with our unblemished record in this area.

Why We Create Value

To satisfy the needs of our customers and other stakeholders, we continue to innovate and improve our products and services

The strategic plan provides the framework within which the Bank continues to strengthen its operations and position itself to be a reliable partner to its customers and other stakeholders.

The four pillars of the strategic plan focus on,

- **Enhancing our retail and SME customer base;**
- **Improving the CASA;**
- **Transforming our branch network to be increasingly lean and efficient; and**
- **Digitalising our operations to provide convenience and increase speed of response.**

Our approach to support and maintain our customer base through challenging times, generate sufficient capital inflows at optimum cost, improve the productivity of our sales team and relationship officers, broaden the application of digital processes and keep abreast of customers' needs, gives us the capacity to successfully fulfil the requirements of the key pillars of the strategic plan.

Our process in evaluating applications for credit has improved threefold, with response times in the majority of instances now reduced considerably.

Our human resource agenda has encompassed programmes to develop specialised competencies, particularly amongst those who have been redeployed to areas of customer service. The teams in branches are being multi skilled to improve the customer experience and consequently increase customer participation in the Bank's products and services, and invariably augment its revenue.

Increased focus on digitalising the Bank's operations has led to the appointment of a "Head of Digital Banking Channels" to guide the execution of the programme. The three-year digital road map has been finalised and implementation has commenced.

The effective promotion of the Bank's products, such as, Money Market Savings, Seylfie, Mpay etc., are indicative that the Bank caters innovatively to meet the needs of its customers.

What Creates Value

We are committed to building and nurturing our relationships, thus providing sustainable value to our customers, investors, and other stakeholders

Sustainability of operations is vital to the Bank's strategy to engage with its many stakeholders and provide assurance on its capacity to continue to service their needs. Transparency and integrity in the conduct of its business are essential ingredients in the Bank's approach to sustainability.

The "Bank with a Heart" approach to dealing with its customers who are experiencing various needs in their operations and using the Bank's strength to manage and sustain their financial needs and businesses has enhanced relationships and strengthened the resolve of its customers to continue to engage actively with the Bank.

GOVERNANCE, RISK MANAGEMENT AND SUSTAINABILITY STEWARDSHIP

The Bank's governance framework which underpins its sustainability is set out in detail in the "Corporate Governance" section of the Annual Report.

The Bank aims to mitigate its exposure to risk and deliver long-term shareholder value. The regulator recommended risk framework has been put in place to manage 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 has developed sustainability strategies which are in line with the core business strategies of the Bank. The Management Committee, led by the Senior Management, is responsible for all economic, social, and environmental aspects of the Bank's operations. It is also responsible to monitor the sustainability processes of the Bank.

The regulatory directions issued by the Central Bank of Sri Lanka (CBSL), the Colombo Stock Exchange (CSE) and industry Codes of Best Practice govern our approach to responsible banking.

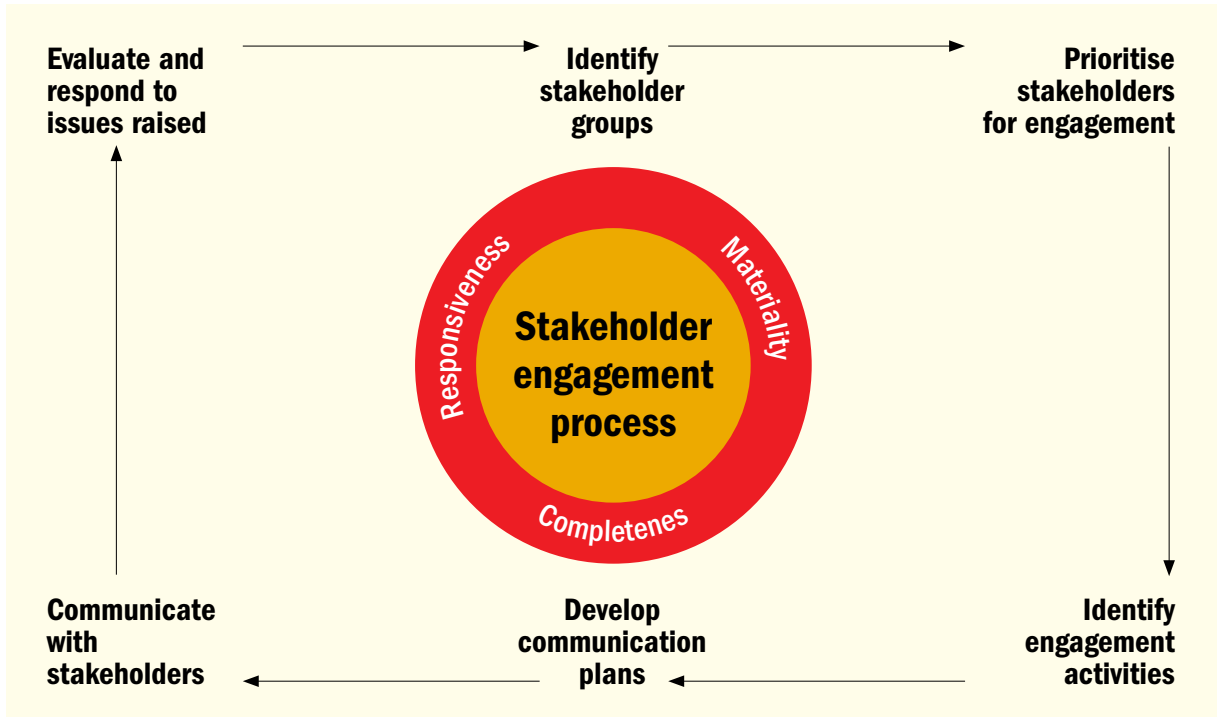
Internal policies for responsible banking

- Staff code of conduct
- Information security policy
- Credit policy
- Recovery policy
- Treasury investment policy
- Asset and liability policy
- Sustainability policy
- Integrated risk management policy
- Whistle-blowing policy
- Related party transaction policy

Regulatory directions and voluntary code of practice adopted by the Bank for responsible banking

- Know your customer policy
- Anti-money laundering policy
- Customer charter
- Ethical advertisements
- Display of interest rates, exchange rates, and service charges
- Ensure adequate/correct disclosures/press statements
- 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
- Approval of CBSL for the authority to accept deposits and do other banking functions
- Accounting Standards – SLFRS/LKAS

STAKEHOLDER ENGAGEMENT PROCESS







Our stakeholder engagement process, in summary, involves the identification of the stakeholder groups, prioritising stakeholders for engagement, identifying engagement activities and developing communication plans, communicating with stakeholders and evaluating, and responding to issues raised.



STAKEHOLDER ENGAGEMENT

Engagement with stakeholders is a daily function at the Bank. Employees are essential to undertake this assignment as they establish and maintain relationships in the course of delivering the services offered by the Bank.

In this regard, stakeholder feedback is considered extremely important and crucial in sustaining sound associations with the Bank’s customers and other partners. Its importance is underscored by the attachment of Investor/ Stakeholder Feedback forms to this Report.

Stakeholder	Key topics and concerns raised	How the Bank responded to such concerns	Method of engagement	Frequency of engagement
Investors 	<ul style="list-style-type: none"> Financial performance of the Bank Sustainable growth Sound liquidity and capital management Good governance and risk management framework Business overview, business strategy, and challenges Asset quality of the Bank Volatile macro-economic environment 	<ul style="list-style-type: none"> Manage the business effectively and efficiently to deliver sustainable wealth Enforce integrated risk management with adequate and robust internal controls and carry out independent audit and compliance trails Protect and facilitate stakeholder rights and ensure fairness and transparency (SLFRS 9 and Basel III) Ensure regulatory compliance and responsible banking Prudent management of assets and liabilities as decided by the ALCO committee 	<ul style="list-style-type: none"> Annual report including Investor feedback form Interim Financial Statements Annual General Meeting Extraordinary General Meetings Investor presentations 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

Stakeholder	Key topics and concerns raised	How the Bank responded to such concerns	Method of engagement	Frequency of engagement
Customers 	<ul style="list-style-type: none"> • Product Innovation and customisation • Make banking convenient and flexible • Fair and transparent • Product pricing (interest rates, fees and charges) • Service quality • Customer Security and Privacy 	<ul style="list-style-type: none"> • Deployed Relationship officers and outbound sales force to initiate door step banking • Recruited outbound sales force • Appointed dedicated staff to enhance service quality • Effective and efficient customer grievance handling mechanism • Annual customer surveys to obtain feedback on satisfaction levels and improvements on products and services • Make banking convenient and flexible by continuously expanding New branches, ATMs, CDMs and digitalisation of delivery Channels 	<ul style="list-style-type: none"> • Banking centres • ATMs/CDMs • Call centres • Student savings 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 Annually As and when required As and when required Regularly
Employees 	<ul style="list-style-type: none"> • Fair Remuneration • Job security and satisfaction • Staff welfare • Groom and retain existing talents • Motivation and recognition • Career development • Diversity and Inclusion • Training and development 	<ul style="list-style-type: none"> • Collective agreements signed to maintain fair compensation and numerous fringe benefits • 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 • Inbound and outbound training • Discussion with unions • "Seylan Banker" newsletter • Intranet/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 As and when required As and when required Quarterly Regularly As and when required As and when required
Suppliers and Business Partners 	<ul style="list-style-type: none"> • Fair pricing • Quality of suppliers' goods and services • Efficient procurement process • Transparency and equal opportunity in the selection process of the suppliers • Upstream environmental and social risks assessments 	<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 • Ethical business relationship management, timely payment, and settlement system • Collaborative and ethical partnerships are encouraged for mutual benefits 	<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

Stakeholder	Key topics and concerns raised	How the Bank responded to such concerns	Method of engagement	Frequency of engagement
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 • Employment opportunities 	<ul style="list-style-type: none"> • Project to excel in quality education and enhance computer literacy • Focus on Micro and SME and finance their development needs • Identify youth and women entrepreneurs for tailor made financing and socio-economic empowerment • Promote sales-oriented banking service from branch network and promote e-banking with strengthened information security • Philanthropic sponsorships to community circles within which we operate our business • Religious observances and activity during main religious festivals 	<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 for numerous social and religious events • Financial literacy and inclusiveness 	<ul style="list-style-type: none"> • Regular intervals • Regular intervals • As and when required • As and when required • As and when required
Environment 	<ul style="list-style-type: none"> • Environmentally resilient business model • Mitigate negative impact and enhance positive impact • Reduce greenhouse gas emission • Collaborations and collective Environmental and Social performance 	<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 practices • Efficient use of natural resources • Significant number of credit appraisals routed through Loan Origination System • Conventional tools replaced with power effective saving measures • Management and control of transportation of goods and staff commuting 	<ul style="list-style-type: none"> • Implementation of Bank’s Environmental and Social Risk Management System which is now in the pilot run roll out • 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 • Membership events with Biodiversity Sri Lanka and Global Sustainable Finance Network 	<ul style="list-style-type: none"> • As and when required • As requested • Regularly • Regularly • As and when required

MATERIALITY

This Report focuses on the economic, environmental, and social topics that impact the current operations significantly, that are important to the stakeholders and have an influence on the future direction of the Bank.

MATERIALITY ASSESSMENT

The issues that are addressed in this Report are those which are considered material and have a direct or indirect impact on decisions taken by our

stakeholders in the course of doing business with us. The 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 the Bank's operations;
- The extent of various stakeholder interactions and their levels of expectations;
- The degree of responsibility that is expected of a responsible corporate citizen;

- The impacts arising from the activities of customers and other stakeholders;
- The degree of value that the Bank can deliver in relation to each aspect.

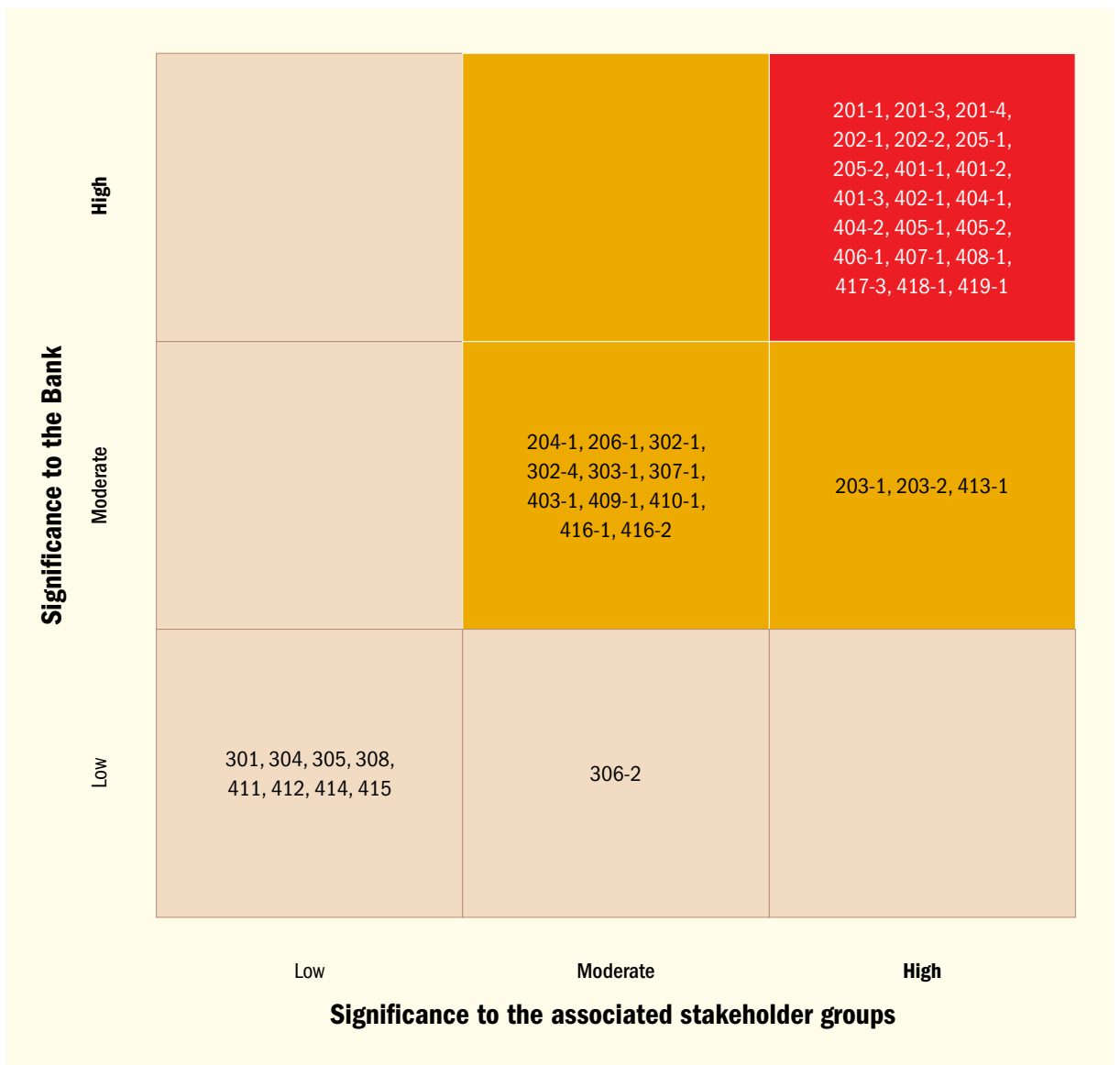
A table of the various topics dealt with by the Bank may be accessed here together with a Materiality Matrix that identifies the significance of the issues to the Bank.

Topic	Materiality			Relevant indicators (GRI Standards)	Topic boundary					
	Overall Bank	Associated stakeholders	Reporting/ not reporting		Internal			External		
					Employees	Investors	Customers	Community	Environment	Suppliers and business partners
Economic	Economic performance	H	H	✓	GRI 201-1, 201-3, 201-4		✓			
	Market presence	H	H	✓	GRI 202-1, 202-2		✓			
	Indirect economic impact	M	H	✓	GRI 203-1, 203-2		✓		✓	
	Procurement practices	M	M	✓	GRI 204-1					✓
	Anti-corruption	H	H	✓	GRI 205-1, 205-2				✓	
	Anti-competitive behaviour	M	M	✓	GRI 206-1					✓
Environment	Materials	L	L	*	GRI 301					
	Energy	M	M	✓	GRI 302-1, 302-4					✓
	Water	M	M	✓	GRI 303-1					✓
	Biodiversity	L	L	*	GRI 304					
	Emissions	L	L	*	GRI 305					
	Effluents and waste	L	M	✓	GRI 306-2					✓
	Environmental compliance	M	M	✓	GRI 307-1					✓
	Supplier environmental assessment	L	L	*	GRI 308					
Social	Employment	H	H	✓	GRI 401-1, 401-2, 401-3	✓				
	Labour/management relations	H	H	✓	GRI 402-1	✓				
	Occupational health and safety	M	M	✓	GRI 403-1	✓				
	Training and education	H	H	✓	GRI 404-1, 404-2	✓				
	Diversity and equal opportunity	H	H	✓	GRI 405-1, 405-2	✓				
	Non-discrimination	H	H	✓	GRI 406-1	✓				
	Freedom of Association and Collective Bargaining	H	H	✓	GRI 407-1	✓				
	Child labour	H	H	✓	GRI 408-1	✓				
	Forced or compulsory labour	M	M	✓	GRI 409-1	✓				

Topic	Materiality			Relevant indicators (GRI Standards)	Topic boundary						
	Overall Bank	Associated stakeholders	Reporting/ not reporting		Internal			External			
				Employees	Investors	Customers	Community	Environment	Suppliers and business partners		
Social	Security practices	M	M	✓	GRI 410-1	✓					
	Rights of indigenous people	L	L	*	GRI 411						
	Human rights assessment	L	L	*	GRI 412						
	Local communities	M	H	✓	GRI 413-1					✓	
	Supplier social assessment	L	L	*	GRI 414						
	Public policy	L	L	*	GRI 415						
	Customer health safety	M	M	✓	GRI 416-1, 416-2					✓	
	Marketing and labelling	H	H	✓	GRI 417-3					✓	
	Customer privacy	H	H	✓	GRI 418-1					✓	
	Socio-economic compliance	H	H	✓	GRI 419-1						✓

* Not assessed for the reporting purpose due to remote and insignificant impact to both Bank and its stakeholders.

(H) High (M) Moderate (L) Low



The Context

While global economic growth has been strong, it is vulnerable in the near-term future to heightened risks in the environment

THE GLOBAL ECONOMY

Since 2016 the world economy has been strong and has had a broad-based recovery. Global growth reached 3.1% in 2017 and 2018 was expected to finish the year at 3.7%.

This growth is unfortunately being overshadowed by increasing conflicts which have doubled in 2017 when compared to 2007. High levels of poverty and inequality are associated with increased likelihood of conflict, as economic marginalisation and weak job opportunities trigger social discontent.

Political instability in nations needing support, has also led to a curtailment of foreign economic assistance as the donors look for security of investments in countries which are politically and economically stable.

Three countries (USA, China, and Japan) had GDP above the world average of USD 4 Tn.

Besides inflation, unemployment, exports and imports, the role that oil plays in the global economy is significant. The world's largest oil importer, China, is also the 2nd largest producer of goods in the world. Variations in oil prices affect inflation rates and of course, the cost of exports. Faced with increased tariffs in the USA, China's main country of export,

additional challenges are presented in sustaining growth and maintaining the circulation of wealth in the world.

Source: UN briefing on World Economic situation and prospects

FUTURE GLOBAL ECONOMIC OUTLOOK

World output from the advanced economies is expected to taper to 2.0% in 2019 from 2.3% in 2018 and the Emerging Market and Developing Economies are also expected to decrease their output to 4.5% in 2019 from 4.6% in 2018.

Supply disruptions and geopolitical tensions have helped raise oil prices, benefiting emerging oil exporters (Russia and Middle Eastern suppliers) but affecting importers (China and India).

Overall growth in Sub-Saharan Africa will exceed that of population growth over the next couple of years, allowing per capita incomes to rise in many countries. Despite some recovery in commodity prices, growth will still fall short of the levels seen during the commodity boom of the 2000s. Adverse developments in Africa – civil strife or weather-related shocks could intensify outward migration pressures, especially towards Europe.

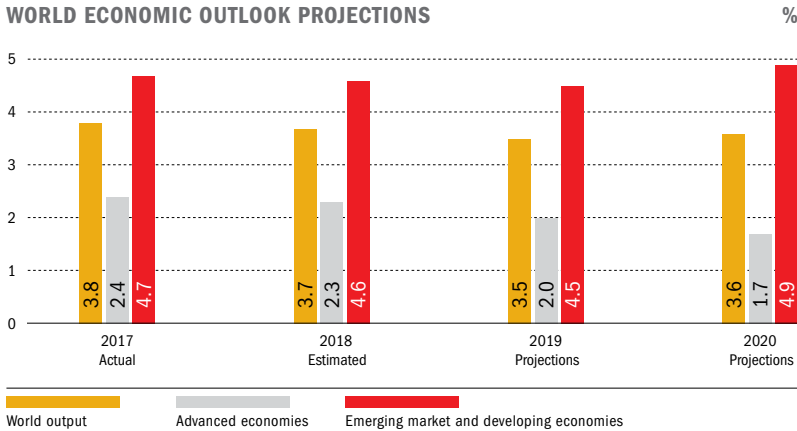
Federal Reserve policy is central to global financial developments. Given strong US employment and firming inflation, the Federal Reserve is on track to continue raising interest rates over the next two years, tightening its monetary policy compared with other advanced economies and in the process, strengthening the US dollar.

Political uncertainty has risen in Europe, where the European Union faces fundamental political challenges regarding migration policy, fiscal governance, norms concerning the rule of law, and the Euro area institutional architecture. The terms of Brexit remain unsettled despite months of negotiation. Prospective political transitions in Latin America over the coming months, add to the uncertainty.

In rising to address these issues, countries will need to realise that national action alone may not be sufficient. Strengthening the multilateral trading system, reducing excess global imbalances, financial stability policy, international tax policy, cyber and other terrorist threats, disease control, and global warming are some of the major matters that need to be addressed in overcoming the economic challenges and managing the vulnerability of the poor.

Source: IMF World Economic Outlook Update, January 2019

WORLD ECONOMIC OUTLOOK PROJECTIONS



Source: IMF January 2019

THE SRI LANKAN ECONOMY

Challenges to the Sri Lankan economy in 2018 originated mainly from the global economic, financial, and geopolitical developments that adversely affected the external sector. Economic growth which was below par continued in 2018, following subdued growth in 2017. Favourable weather conditions however contributed to an improvement in the agriculture sector. The industrial sector was at the opposite end of the spectrum with a slowdown in the construction segment.

Consumer price inflation remained low in 2018 despite fluctuations in food prices and administrative price adjustments.

In response to the subdued performance of the economy during the year and coupled with the favourable inflation outlook, the CBSL reduced the upper band of the interest rates corridor in April 2018. The reduced rupee liquidity in the domestic money market opted the CBSL to reduce the Statutory Reserve Ratio (SRR) applicable on all rupee deposits of commercial banks while increasing policy interest rates to neutralise the impact on interest rates due to the reduction in the SRR.

The growth in export earnings was outdone by increases in import expenditure. In addition, the strengthening of the US dollar and the resultant outflows of foreign exchange, put extra pressure on the Balance of Payments (BoP). Earnings from tourism, workers' remittances, foreign direct investment (FDI), and debt related inflows to the Government, helped to cushion the balance of payments to some extents.

These developments resulted in a sharp depreciation of the Sri Lankan rupee

particularly during the second half of the year.

Standard & Poor's (S&P) and Fitch lowered Sri Lanka's credit rating from "B+" to "B" while maintaining a "Stable" outlook on the economy. This downgrading was primarily triggered by the domestic political instability which increased external refinancing risks, created an uncertain policy outlook and augmented the risk of a slowdown in fiscal consolidation.

CBSL Road Map 2019

FUTURE OUTLOOK FOR SRI LANKA'S ECONOMY

The Sri Lankan economy is expected to grow by 3.5% in 2019, as per World Bank.

The impact of the depreciation in currency has not yet been felt in 2019. However, given the trade imbalance experienced by the country, it is extremely likely that this is going to affect the performance of the economy as a whole.

Earnings from tourism and inward remittances from Sri Lankan workers overseas are expected to remain stable and contribute to inflows of foreign exchange into the country.

Normalisation of the monetary policy will ensure sustained economic and price stability in Sri Lanka.

THE BANKING INDUSTRY

Currently there are 26 Licensed Commercial Banks (13 local and 13 foreign) and 7 licensed specialised banks in Sri Lanka.

The banking industry is a vital cog in the economic growth cycle of the country. It is the one formal avenue for attracting deposits from the public, which in turn, underpins its role in providing loans to encourage investment and production.

Political instability and the pressure on government finances consequent to the servicing of increasing government debt, presented many challenges to the Sri Lankan banking industry. These macro economic pressures on the short to medium term performances of the banks resulted in Fitch Ratings maintaining a "Negative" outlook on the banking sector. This was further buttressed by the increase in the Non-Performing Loan Ratio. In addition, the 2018 budget proposed a "Debt Repayment Levy" to be implemented from 1 October 2018 for a period of three years.

The implementation of the Accounting Standard SLFRS 9 in 2018 resulted in additional provisions for loans and advances being made against the operating results of the year.

FUTURE OUTLOOK FOR THE BANKING INDUSTRY

Capital infusion to meet Basel III requirements in 2019, presents a major challenge to the industry, particularly given the uncertainties surrounding the outlook in the country.

More and more banks are moving towards increased digitalisation of their operations providing many advantages to customers, improving accessibility and enhancing their convenience factor.

The CBSL intends to apply the Banking Sustainability Rating Index (BSRI) in 2019 that will measure the safety and soundness of banks, and help mitigate the potential risks which may lead to bank failures.

The Central Bank has also initiated drafting a new Banking Act with a view to further strengthening the regulatory framework pertaining to licensed banks in the country.

It is expected that a new regulatory framework will be issued, to ensure treasury operations of licensed banks are carried out prudently and in line with international best practices.

Financial Value Creation

Despite the results being impacted by the increased impairment allowances and the resolution of a long-standing additional gratuity, the Bank recorded a profit after tax of LKR 3.2 Bn. for the year. Total Assets grew by 14%, while both deposits and advances increased by over 16%

	Bank	Group
Profit after tax		
With additional gratuity expense	LKR 3.19 Bn.	LKR 3.15 Bn.
Without additional gratuity expense	LKR 4.01 Bn.	LKR 3.95 Bn.

The Bank reports a modest overall growth-bottom line weighed down by one off provision for additional gratuity and higher impairment provisions.

LKR **467** Bn.

Total asset base

14%

Growth of total asset base

Over LKR **50** Bn.

Deposits growth

16%

Growth of customer deposits

13.30%

Capital adequacy ratio

21.44%

Liquidity ratio

LKR **94.54**

Net assets value per share

LKR **46** Bn.

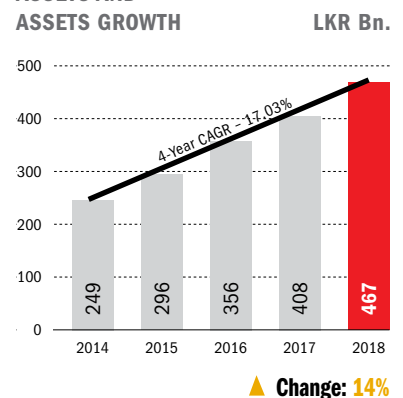
Net advances growth

STATEMENT OF FINANCIAL POSITION

ASSETS AND ASSETS GROWTH

- Total assets increased by LKR 59 Bn. (14.4%) to LKR 467 Bn. with loans and advances of LKR 46 Bn. being the main driver.
- Credit growth was a commendable, increased 16% in sluggish economic conditions.
- The major components of the Banks assets grew in an environment which reported only a moderate growth.

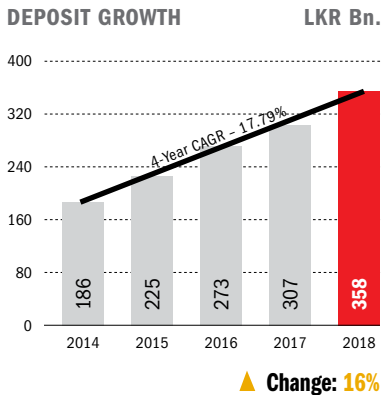
ASSETS AND ASSETS GROWTH



DEPOSITS

- Customer deposits continued to grow and was an impressive LKR 358 Bn. at end 2018 with an increased over LKR 50 Bn.
- The Bank offers a variety of deposit options and caters to a diverse spectrum of the public such as Seylan seylfie, accounts for children, senior citizens, income saver and money market accounts.
- The focus on CASA continues and the Bank grew its base by LKR 7.3 Bn. reflecting a growth of 7.6% over the year. However, the Bank's CASA stood at 28.8% at the end of 2018.

DEPOSITS AND DEPOSIT GROWTH



IMPAIRED LOANS AND EXPECTED CREDIT LOSS ALLOWANCE

The Bank implemented SLFRS 9 successfully while improving our provision cover, open credit exposure and other ratios. The Bank's total expected credit loss allowance on loans and advances was LKR 9.893 Bn. as at 31 December 2018. The impairment charge for the year 2018 was LKR 3,475 Mn. and reflected an increase of 131% over the last year charge of LKR 1,505 Mn.

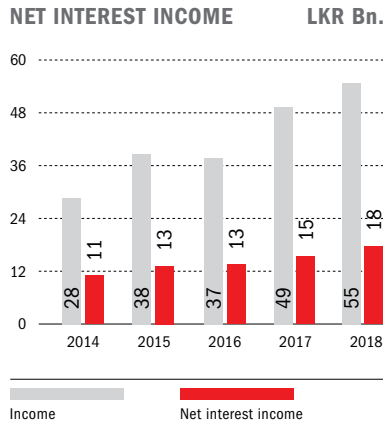
INCOME STATEMENT/ STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

GROSS INCOME AND NET INTEREST INCOME

- Gross income increased by 11.62% to LKR 54.873 Bn. from LKR 49.161 Bn. the previous year.

- Net interest income was LKR 17.747 Bn. and reflected a 14.6% increase on the amount of the previous year of LKR 15.491 Bn.
- The cost of funds, represented by interest expense, amounted to 63.95% of interest income. This was a slight improvement on the previous year where interest expense as a percentage of interest income was 64.43%.
- Net interest income comprised 76.52% of total operating income during the year, compared to 73.98% in the previous year.

GROSS INCOME AND NET INTEREST INCOME



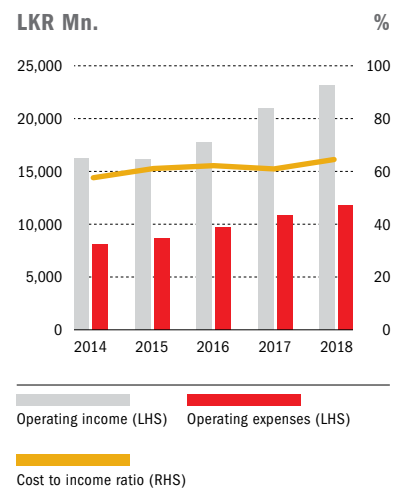
NET FEE AND COMMISSION INCOME, NET GAIN/LOSSES FROM TRADING/NET FAIR VALUE, GAINS/LOSSES FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND OTHER OPERATING INCOME

- Net fee and commission income of LKR 4.054 Bn. in 2018 was 7.0% higher than that of the previous year.
- The growth was related to increased volume of fees generated from banking activities which include trade financing, credit card operations, other financial services etc.
- The Bank actively promotes cross-selling of products across the spectrum to increase the fee income.
- Other operating income reduced from LKR 1.340 Bn. to LKR 0.377 Bn., largely due to a decrease in income from foreign exchange resulting from the depreciation of the rupee and reduction in trade volumes.

TOTAL OPERATING INCOME AND EXPENSES

- Total operating income of LKR 23.19 Bn. was LKR 2.253 Bn. (10.8%) higher than the previous year. This was mainly due to the core business of the Bank (loans and advances) generating an increase in net interest income of LKR 2.256 Bn.
- Bank's operating expenses increased by 8.5% to LKR 11.803 Bn. from LKR 10.883 Bn. excluding additional gratuity expense.
- Personnel expenses increased to LKR 5.782 Bn. from LKR 5.196 Bn. reflecting an increase of 11.3%. excluding additional gratuity, VAT, NBT, and DRL. This did not include the "additional one off gratuity expense" of LKR 1.135 Bn. recorded in the current year to recognise the liability.
- Depreciation and amortisation and other expenses grew from LKR 5.687 Bn. to LKR 6.020 Bn.

OPERATING INCOME/ OPERATING COST/ COST TO INCOME RATIO



TAXATION

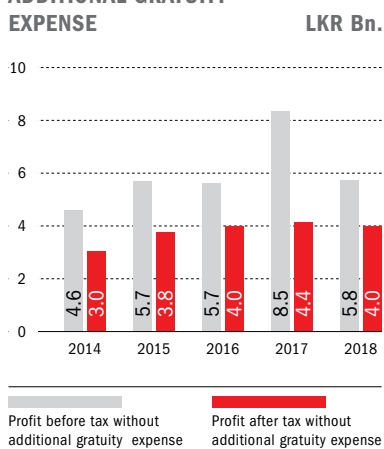
- Expenses on VAT and NBT on financial services amounted to LKR 1.899 Bn. and showed a slight increase from LKR 1.895 Bn. the previous year.
- A new levy, "debt repayment levy" however added to the cost of the Bank, by LKR 0.215 Bn. in 2018 which is introduced with effect from 1 October 2018.
- The Bank's effective tax rate is 32% and Bank's income tax expenses recorded LKR 1.477 Bn. in 2018.

- This year deferred tax assets are being created mainly due to effect on net fair value losses on financial instruments measured at fair value through other comprehensive income, adjustment on initial application of SLFRS 9 and disallowable unpaid gratuity charge.

PROFITABILITY

- Despite the additional one off gratuity expense, the Bank recorded a net profit after tax of LKR 3.2 Bn.
- The profit for the year was affected by the cost of additional gratuity of LKR 1.1 Bn. and the impairment charges of LKR 3.5 Bn.
- The Bank showed resilience in being able to meet these additional one off charges and yet to make a considerable after tax profit.

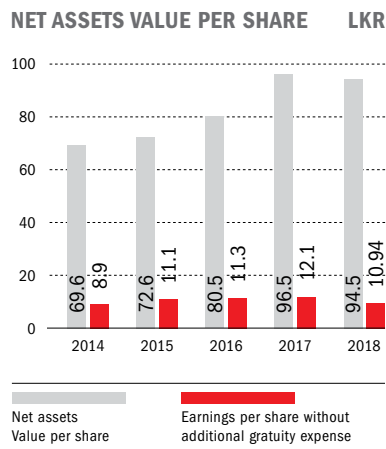
PROFIT BEFORE AND AFTER TAX WITHOUT ADDITIONAL GRATUITY EXPENSE



SHAREHOLDERS' FUNDS

- Shareholders' funds increased only by 1.18% in 2018. This was mainly due to the subdued profit, fair value losses on investments measured at fair value through OCI for the year.
- The net assets value per share of the Bank reduced to LKR 94.54 in 2018 compared to LKR 96.50 in the previous year.
- The Bank's ROE and ROA registered 9.27% and 0.73% respectively in 2018. If additional gratuity expense is excluded from the profit the ROE and ROA are 11.51% and 0.92% respectively. This was a reduction compared to the figures of 14.30% and 1.16% respectively, generated in 2017.
- The proposed dividend per share in 2018 is LKR 2.50.

EARNINGS PER SHARE WITHOUT ADDITIONAL GRATUITY EXPENSE AND NET ASSETS VALUE PER SHARE



OUR FINANCIAL SOUNDNESS INDICATORS (FSIs)

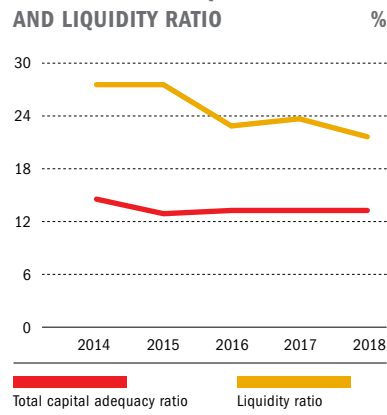
Financial soundness indicators (FSIs) are used to assess the financial strength of a banking institution. These indicators are benchmarked against international best regulatory practice advocated by the BASEL committee. In order of importance, they are:

- Capital strength/adequacy
- Asset quality which denotes the productivity of the assets that earn income
- Liquidity - indicating the Bank's ability to meet its daily obligations
- Profitability and earnings

CAPITAL ADEQUACY

- Banks are highly leveraged institutions which use predominantly borrowed funds to operate. The Bank's common equity Tier 1 capital ratio, total Tier 1 capital ratio and the total capital ratio, were all well above the Basel III statutorily required levels of 6.375%, 7.875% and 11.875% respectively.
- The Bank maintains a sound capital adequacy ratio (CAR) despite the increase of risk-weighted assets consequent to growth in credit.

TOTAL CAPITAL ADEQUACY AND LIQUIDITY RATIO



CAPITAL

The Bank continued to be well capitalised in 2018.

	2018 Actual %	2018 CBSL requirement %	2017 Actual %	2017 CBSL requirement %
Common Equity Tier 1	10.20	6.375	11.16	5.75
Total Tier 1 capital ratio	10.20	7.875	11.16	7.25
Total capital ratio	13.30	11.875	13.25	11.25

Retained Earnings, which represents internally generated capital, grew by 15.26% in 2018.

STATUTORY RESERVE FUND

- The statutory reserve fund, which is a prudent regulatory reserve, is established by a mandatory transfer of 5% of profit after tax each year to cover potential losses in the business.
- The balance in the reserve fund at the end of 2018 was LKR 1.769 Bn. and was an increase of 10% on the previous year.

CAPITAL GROWTH

- Since the recapitalisation of the Bank in 2009, its capital has grown by an annual average of 22.74%.
- This growth has been responsible for the Bank's mandatory capital ratios being well above the regulatory minimum levels.
- The level of capital held by the Bank has also enabled it to grow its asset book at a steady rate.
- The capital of the Bank, at the end of the 2018 year was LKR 34.6 Bn. recording a growth of 1.2% over the previous year.

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

- The minimum statutory requirement of liquidity in both domestic and foreign banking units is 20%. The Bank maintained liquidity levels of 21.44% and 22.08% respectively, which were above the minimum level.
- The liquidity ratios are monitored by the Asset and Liabilities Committee (ALCO) to ensure the efficient management of the Bank's liquid resources.

LIQUIDITY COVERAGE RATIO

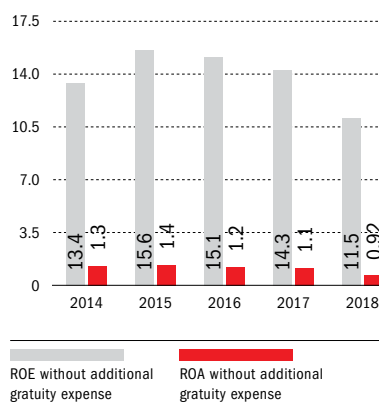
- The Central Bank of Sri Lanka (CBSL) introduced a liquidity coverage ratio (LCR) in keeping to the terms of the Basel III liquidity standards. The purpose of this is to ensure short-term liquidity of the banks. The standard requires banks to hold unencumbered high-quality liquid assets to enable them to survive a significant stress scenario lasting 30 calendar days.
- The requirement was phased in with effect from 1 April 2015, where banks were required to hold at least 60% of the standard with full implementation by 1 January 2019 onwards at 100%.
- LCR for the Bank was at 128.76% on Rupee and 92.15% on all currencies at 31 December 2018, comfortably above the minimum requirements of 90%.

- In addition to 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 3.19 Bn. while the Group profit after tax was LKR 3.15 Bn. Both amounts reflected negative growth from the previous year and were the consequences of the liability for additional gratuity and impact on initial adoption of SLFRS 9 which gave rise to impairment charge on loans and advances.
- The Bank and Group operating profit before tax was similarly affected and declined in 2018 to LKR 4.67 Bn. and LKR 4.69 Bn. respectively.
- The return on assets (ROA) was 0.73% and the return on equity (ROE) was 9.27% in 2018 excluding additional gratuity expense.

RETURN ON ASSETS AND RETURN ON EQUITY WITHOUT ADDITIONAL GRATUITY EXPENSE



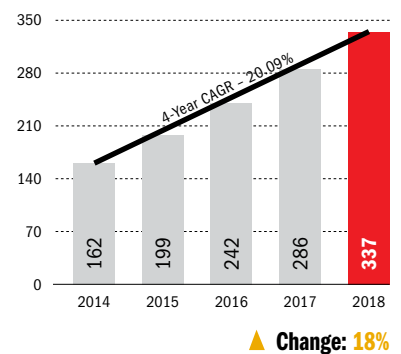
COST TO INCOME/ EFFICIENCY RATIO

- The Bank's cost to income ratio, including VAT, NBT and DRL reduced from 61.02% to 60.00% (excluding additional gratuity expense).
- The cost to income ratio, excluding VAT, NBT, DRL and additional gratuity expense also reduced from 51.97% to 50.89%.
- This is mainly due to cost initiatives the Bank adopts during the year to streamline the processes, moving to digitalisation etc.

KEY PERFORMANCE INDICATORS (KPIs)

	2018 LKR Mn.	2017 LKR Mn.	Growth %
Deposits	357,560	307,099	16.43
Net loans and advances	326,882	280,862	16.39
Net interest income	17,747	15,491	14.56
Net fee, commission and other income	5,445	5,448	-
Profit after tax without additional gratuity expense	4,006	4,430	(9.57)

GROSS ADVANCES AND ADVANCES GROWTH



GROWTH TREND IN ASSETS

- The Bank managed interest rate and exchange rate risks to ensure the availability of sufficient liquidity and funding to sustain the growth of the Bank.
- The assets and liabilities committee, whose primary responsibility is to manage the financial position of the Bank, monitored 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 is focussed on growing its CASA base, SME and retail sectors by building customer relationships and leveraging on improvements to the Bank's digital platform.

FUTURE OUTLOOK

SHAREHOLDER VALUE

- We will continue to enhance the Bank's return on assets (ROA) and return on equity (ROE) which indicate the extent to which the wealth of the Bank has been augmented and consequently the return to the shareholders.
- The focus on the Bank's sustainability will centre around the prudent allocation of capital, competitive pricing, operational efficiency and service quality directed towards increasing market share and participation in the SME and corporate sectors.

The Bank's actual and estimated ROA and ROE are shown in the table below:

Year	2017 Actual	2018* Actual	2019** Estimate	2020** Estimate
ROE (%)	14.30	11.51	>13.5	>14.5
ROA (%)	1.16	0.92	>1	>1.2
EPS (LKR)	12.10	10.94	>13	>15

* Excluding additional gratuity expense.

** Excluding any capital infusions in future.

The Bank's actual and estimated growth targets in respect of deposits, advances and total assets are shown below:

Year	2017 Actual	2018 Actual	2019 Estimate	2020 Estimate
Total deposits (LKR Bn.)	307	358	>410	>470
Total gross advances (LKR Bn.)	286	337	>390	>440
Total assets (LKR Bn.)	408	467	>525	>585

GROWTH IN CASA AND SME

- Strongly improve the Bank's CASA ratio from its current levels.
- Channel customers' deposits from term deposits to demand and savings deposits.
- Implement key initiatives to drive CASA growth through SME and retail relationship officers.
- Monitor the results achieved by CASA campaigns and related growth.
- The strategic plan is geared towards generating more business from the SME sector and the increase of fee-based income.
- Develop the SME hubs that have been established, to facilitate end to end credit processing and manage risks in the SME sector. Currently there are 12 SME hubs are being opened in the main regions.

- Strengthen the product offerings such as, cash management and supply chain solutions and introduce a comprehensive digital strategy for SME and corporate customers.

IMPROVEMENT OF PROCESSES

The following strategic initiatives are being pursued to improve operational efficiency, service quality and optimise returns to shareholders:

Project	Responsibility
Cost optimisation	Chief financial officer/respective heads
Service quality improvements	Head of branches/operations/service quality manager/DGM retail banking and marketing
Digitalisation	DGM IT/DGM branches/Head of digital channels/DGM retail banking and marketing
Staff optimisation	DGM HR/DGM branches/AGM branches
Revamp of liability product management	Head of liability product management - DGM branches
Business process re-engineering (BPR)	DGM operations

PERFORMANCE OF BUSINESS UNITS

Branch banking, corporate and offshore banking, retail banking, treasury, and international and trade services provide banking services. These business units are assisted by a number of support functions



BRANCH BANKING

Our extensive network of branches plays a pivotal role in delivering traditional and innovative banking solutions to all segments of the country. Having recognised our customers' demand we continued to enhance multi-channel and digital banking solutions which create more value to our customers.

Strategies 2018

Expand the delivery channels and transform into a digital bank	Streamlined the operational and credit processes	Shifted towards sales and service oriented culture	Enhanced customer convenience and service quality
--	--	--	---

Performance

	Achievement against the budget %	Growth over last year %
Deposits	94	▲ 12
Advances	97	▲ 15
Net interest income	90	▼ (1)

	Achievement against the budget %	Growth over last year %
Fee-based income	81	▲ -
Profits before tax	74	▼ (12)

Future Strategies

Expansion of branch network in selected areas	Extend technology driven banking solutions	Innovative banking solutions	Cost optimisation strategies
---	--	------------------------------	------------------------------






CORPORATE, OFF-SHORE BANKING

Corporate banking division comprises the Domestic Banking Unit (DBU), Foreign Currency Banking Unit (FCBU) and the newly setup Islamic Banking Unit.

Strategies 2018

Drive to acquire new clients	Account planning and volume based pricing	Industry specialisation and re-organising of team	Steps to strengthen digitalisation and automation	Established dedicated Islamic banking unit under corporate banking
------------------------------	---	---	---	--

Performance

	Achievement against the budget %	Growth over last year %		Achievement against the budget %	Growth over last year %
Deposits	 132	▲ 86	Fee-based income	 127	▲ 26
Advances	 105	▲ 28	Profit before tax	 102	▲ 34
Net interest income	 104	▲ 36			

Future Strategies

Grow asset book in line with identified growth sectors of the country	Strengthen corporate account collections	Introduce corporate channels to strengthen relationships across the value chain	Introduce payment cash management services for corporate clients	Seamless trade platform	Accelerate Islamic banking operations
---	--	---	--	-------------------------	---------------------------------------

RETAIL BANKING UNIT





The Banks' retail banking consists of credit cards, pawning, leasing, personal loans, margin trading and factoring where we serve our customers through dedicated product management units as well as the branch network.

CARD CENTRE

Strategies 2018

Aggressively canvassed new customers through "balance transfer" strategy	Introduced income sharing method with branches to attract more cardholders	Strengthened the card acquisition and recovery processes	Expand the merchant footprint with aggressive acquisition process
--	--	--	---

Performance

	Achievement against the budget %	Growth over last year %		Achievement against the budget %	Growth over last year %
Advances	 105	▲ 27	Fee-based income	 103	▲ 31
Net interest income	 80	▲ 27	Profit before tax	 80	▲ 32

Future Strategies



Strengthen and expand business for high network clients	Increase digital intervention with new payment and operating features	More focus on debit and prepaid cards
---	---	---------------------------------------

LEASING

Strategies 2018

Tie-ups with vehicle dealers to drive sales	Recruited outbound sales team and regional leasing officers	Introduced loan originating system (LOS) for lease approvals	Implemented leasing post documentation verification process	Centralised collection and recovery processes
---	---	--	---	---

Performance

		Achievement against the budget %	Growth over last year %
Advances		88	▲ 16
Interest income		100	▲ 28

Future Strategies



Drive sales growth by expanding the outbound sales team	Set up a dedicated leasing centre	Strengthen the collection and recovery processes	Establish "Vehicle Loans" product under the leasing division
---	-----------------------------------	--	--

PERSONAL LOANS

Strategies 2018

Expand the market share through central sales team and relationship officers	Conducted aggressive marketing campaigns through digital channels	Enhanced process improvements to reduce loan processing turnaround time and expand the personal loan unit
--	---	---

Performance

		Achievement against the budget %	Growth over last year %
Advances		106	▲ 90
Interest income		115	▲ 148

Future Strategies



Loan approval process to be streamlined reduces turnaround time	Strengthen the loan monitoring and recovery processes	Initiate strategic tie-ups with reputed companies
---	---	---

HOUSING LOANS

Strategies 2018

Establishment of centralised sales team and operational processes	Adopted aggressive sales and marketing strategies	Enhanced brand visibility by sponsoring leading exhibitions and publishing on digital channels
---	---	--

Performance

		Achievement against the budget %	Growth over last year %
Advances		97	▲ 16
Interest income		101	▲ 18

Future Strategies

Further expansion of sales team and streamline operational processes	Expand market share by cross selling opportunities and increase brand visibility	Engage relationship officers to increase volumes
--	--	--

PAWNING



Strategies 2018

Deployed dedicate pawing officers at selected branches

Offered competitive advances and interest rates

Region wise pawing and marketing campaigns

Performance

		Achievement against the budget %	Growth over last year %
Advances		85	▲ 15
Interest income		96	▲ 23

Future Strategies

Localised marketing campaigns to be organised to enhance product visibility

Extend the pawing business to Saturday banking branches

Strengthen the monitoring and recovery processes

TREASURY

The Treasury is responsible for managing the Bank's assets and liabilities, statutory reserve requirement, liquidity, foreign exchange position, and investment portfolios.

Strategies 2018



Concentrated on exiting long tenure portfolio holdings and shortening durations

Diversified the investment portfolios to enhance yields

Exchange positions were efficiently managed in the highly volatile market conditions

Leveraged on low cost funding lines to finance the Bank's trade and investment activities

Performance

		Achievement against the budget %	Growth over last year %
Net Interest income		216	▲ 299
Profit before tax		155	▲ 64

Future Strategies

Investment portfolios to be diversified

Proactively manage duration of government security holdings

Leveraging on low cost funding lines to increase the investment and trade related activities

Leveraging on multi bank trading platforms to facilitate arbitrage trading in majors and trade backed position covering

Treasury sales unit to be restructured to acquire new businesses

INTERNATIONAL AND TRADE FINANCE

This division undertakes all operational processes of import and export related transactions and remittances services of the Bank whilst supporting the branches and other business units.

Strategies 2018

Introduced "Easy Trade" concept, appointed trade specialists, offered flexible trade tariff and competitive exchange rates to increase business volumes	Periodic visits made to existing and potential trade clients to revive relationships	Provided on the job training and published e-flyers to enhance competency	Forging of relationships with new correspondent banks with funded/unfunded lines
---	--	---	--

Performance

	Achievement against the budget %	Growth over last year %
Trade related fee and commission income	87 ▲	1

Future Strategies

A priority counter to be operated at trade department to cater to corporate and prime customers	Migrating to a new state of the art trade system which improves operational efficiency	Initiate new correspondent relationships based on geographies	Special marketing campaign to be launched targeting Banks' trade services	Further diversification of trade portfolios
---	--	---	---	---

SUPPORT FUNCTIONS

MARKETING

Marketing plays a pivotal role in enhancing the Bank's corporate image, while supporting business and promoting products and services.

Strategies 2018

Enhanced corporate brand image through 30th anniversary celebrations	Penetrated to capture untapped market with direct sales team	Conducted marketing, and sales related training/workshops for staff	Enhanced below the line promotional activities	Targeted all customer touch points to enhance service quality	Conducted mystery shopper/mystery caller surveys
--	--	---	--	---	--

Future Strategies

Evaluate and enhance productivity of the outbound sales team	Special concentration on SME sector development	Enhance staff engagement with service quality aspects	Expand digital foot print and consolidate digital marketing leadership	Consumer insights and brand health surveys
--	---	---	--	--

INFORMATION TECHNOLOGY

Plays a key role in providing technological solutions to the Bank

Strategies 2018

Upgraded core banking, card switching and payment systems	Enhanced internet and mobile banking features	Re-architecture network and security solutions	Implemented data warehouse
---	---	--	----------------------------

Future Strategies

Enhancement of network infrastructure and security features to facilitate cyber security	Upgrade of IT infrastructure	QR code based and other innovative payment methods	Fee automation and profitability analysis and strengthen the MIS capabilities
--	------------------------------	--	---

RECOVERIES

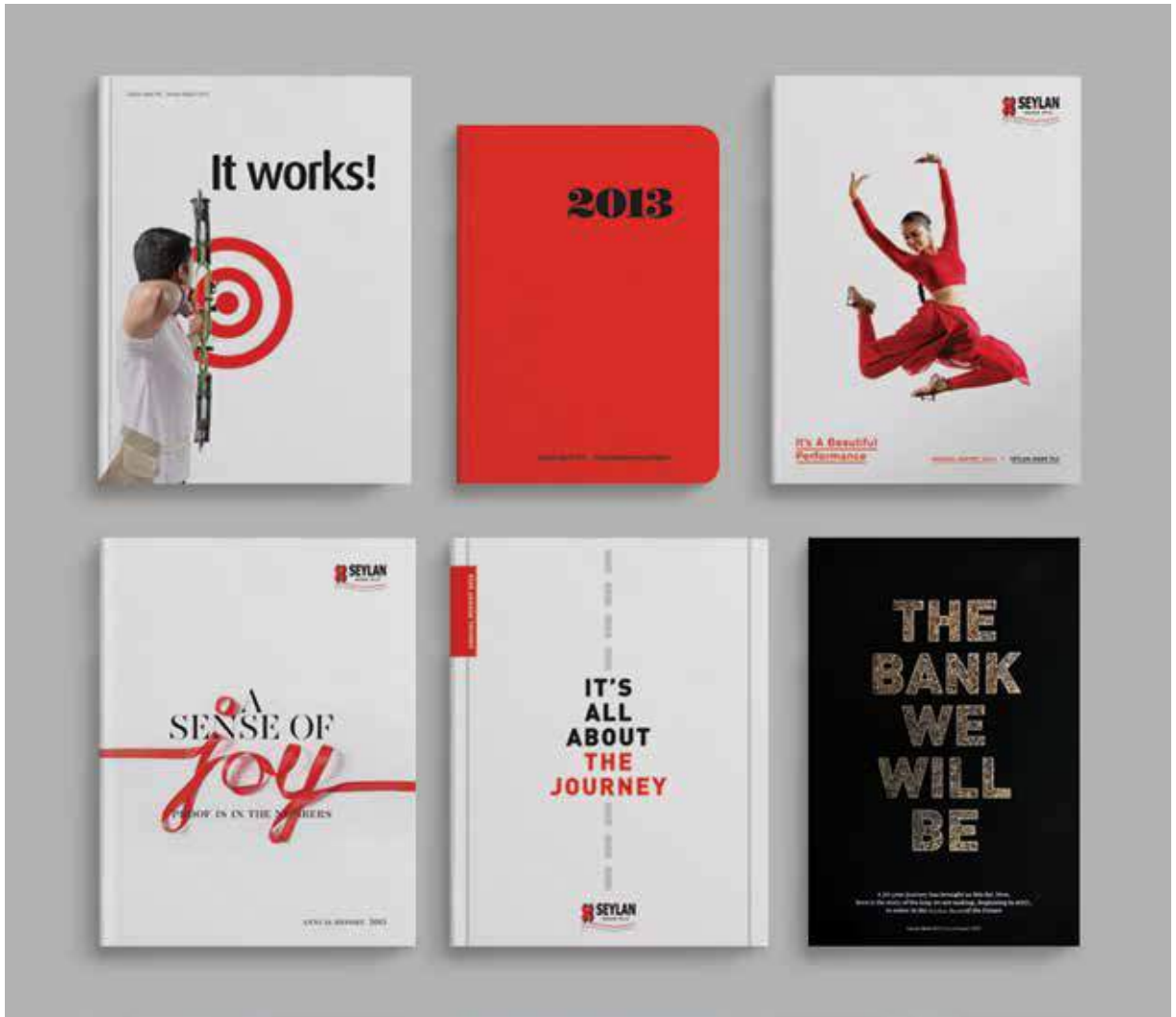
Monitor and control overall asset quality of the Bank and support branches on all recovery related matters.

Strategies 2018

Formed a special credit monitoring unit to strengthen the credit monitoring process	Special concessions were given to recover small value NPAs	Short and long-term policies and processes were identified to reduce growth in NPA	Regular follow up and monitoring
---	--	--	----------------------------------

Future Strategies

The recoveries department liaise closely with regional and branch managers in monitoring borderline customers	Assess risk related controls and ensure high level of credit quality	Further strengthening of the outsourced recovery force
---	--	--



GROUP PERFORMANCE

SEYLAN DEVELOPMENT PLC

Seylan Developments PLC (SDP) is a public limited liability company established in Sri Lanka on 3 September 1992, quoted in 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 2018.

SDP manages and maintains “Seylan Towers” which comprises twin towers in which the East Tower is the head office of Seylan Bank PLC and the West Tower comprises 16 numbers of luxury apartments.

The Company’s Board of Directors is as follows:

- Mr Kapila Ariyaratne – Chairman/Non-Executive Director
- Mr S Palihawadana – Deputy Chairman/Non-Executive Director

- Mr P Saravanapavan – Independent Non-Executive Director
- Mr R J Jayasekara – Non-Executive Director
- Mr LT Kiringoda – Independent Non-Executive Director
- Mr P Hennayake – Non-Executive Director

Seylan Developments PLC reported profit after tax of LKR 255 Mn. During 2018 (for more details of the subsidiary, please refer Note 27.1).



SUSTAINABILITY ASSURANCE REPORT



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
: +94 - 11 244 6058
Internet : www.kpmg.com/lk

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 2018. The sustainability indicators are included in the Seylan Bank PLC's Integrated Annual Report for the year ended 31 December 2018 (the "Report").

The reasonable assurance sustainability indicators covered by our reasonable assurance engagement are:

Assured sustainability indicators	Integrated annual report page
Financial highlights	06

The limited assurance sustainability indicators covered by our limited assurance engagement are:

Limited assurance sustainability indicators	Integrated annual report page
Sustainability performance indicators	78-79
Information provided on following stakeholder groups	
Investors	40-43
Customers	44-50
Employees	51-62
Suppliers and business partners	63-67
Community	68-74
Environment	74-77

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 2018 are, in all material respects, prepared and presented in accordance with the consolidated set of global reporting initiative sustainability reporting standards 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 2018, have not in all material respects, been prepared and presented in accordance with the consolidated set of global reporting initiative sustainability reporting standards 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 consolidated set of global reporting initiative sustainability reporting standards 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 judgment, 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 consolidated set of global reporting initiative sustainability reporting standards 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 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 consolidated set of global reporting initiative sustainability reporting standards 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**

18 February 2019

Informed Investors

Our commitment to deliver sustainable economic value to our investors is unshakeable. Their participation in our business is vital to build the capital, the backbone of our sustainability



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 are;

- Consistent wealth creation and sustainable growth
- Ensuring a sustainable return
- Transparency and responsible banking

The Bank is committed to deliver the maximum economic value to our investors in a sustainable manner without compromising the quality of its products and services. This will provide assurance, on the safety of investments made by investors and ensure the sustainability of the Organisation.

SHAREHOLDER PROFILE

DISTRIBUTION OF SHAREHOLDING

	2018	2017	2016	2015	2014
Stated capital (LKR Mn.)	12,026	11,228	10,530	10,530	10,530
Number of shares - voting and non-voting	366,099,092	354,456,106	344,960,410	344,960,410	344,960,410
Number of shareholders voting and non-voting	15,758	15,735	16,111	16,477	16,866
Number of shares - resident shareholders	349,060,099	340,499,537	324,985,086	323,148,443	321,488,665
Number of resident shareholders	15,536	15,510	15,870	16,232	16,629
Number of shares non-resident shareholders	17,038,993	13,956,569	19,975,324	21,811,967	23,471,745
Number of non-resident shareholders	222	225	241	245	237
Number of shares - individuals	81,155,591	77,064,049	71,624,112	64,244,024	62,033,868
Number of individual shareholders	15,183	15,140	15,469	15,810	16,242
Number of shares - corporate shareholders	284,943,501	277,392,057	273,336,298	280,716,386	282,926,542
Number of corporate shareholders	575	595	642	667	624
Number of shares held by the twenty largest shareholders					
- Voting	160,575,973	155,779,066	148,792,777	144,722,578	147,626,034
- Non-voting	126,620,899	119,723,521	113,858,658	112,335,603	117,968,588

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

	2018	2017	2016	2015	2014
Turnover (LKR Mn.)	54,873	49,161	37,873	28,586	28,564
Profit before income tax and additional gratuity** (LKR Mn.)	5,801	6,656	5,734	5,777	4,649
Profit after Income tax and before additional gratuity (LKR Mn.)	4,006	4,430	4,010	3,831	3,078
Total assets (LKR Mn.)	466,933	408,126	356,013	296,331	249,311
Net assets per share (LKR)	94.54	96.50	80.51	72.63	69.60
Earnings per share (LKR)					
- Before additional gratuity** (LKR)	10.94	12.10	10.95	10.46	8.41
- After additional gratuity** (LKR)	8.71	12.10	10.95	10.46	8.41
Dividend per share as at 31 December (LKR)	2.50	3.50	3.25	2.75	2.50

** Refer Notes 43.1 and 43.17 on the one-off adjustment of additional gratuity accounted in 2018.

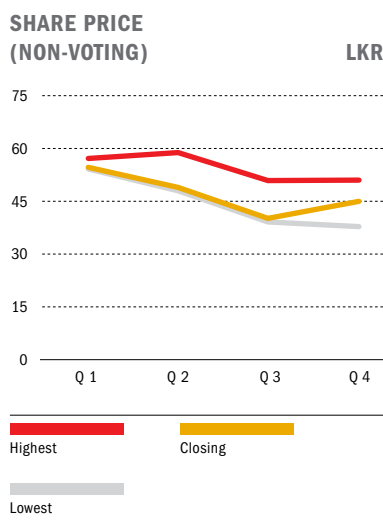
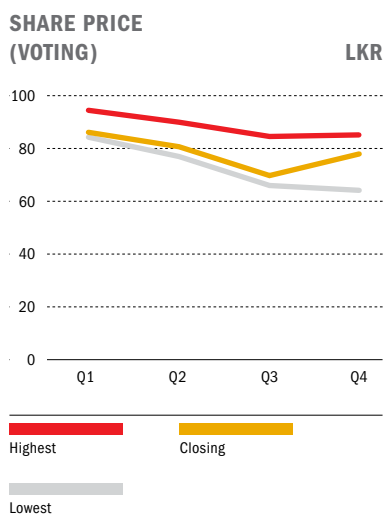
ECONOMIC VALUE ADDED STATEMENT

The Economic Value-Added Statement shown below, illustrates the distribution of value addition to various stakeholders. The Bank distributed 47.89% of its net income to its employees. 6.34% of its profit after tax was distributed to the investors, while 20.91% of its profit after tax was retained for future expansion.

	2018 LKR Mn.	%	2017 LKR Mn.	%
Value added				
Income earned by providing banking services	54,873		49,161	
Cost of services	(36,955)		(33,213)	
Value added by banking services	17,918		15,948	
Net impairment losses	(3,475)		(1,505)	
	14,443		14,443	
Value allocation to employees				
Salaries, Wages and other benefits	5,782		5,196	
Additional gratuity expense	1,135			
	6,917	47.89	5,196	35.97
To Government				
Income Tax	1,477		2,226	
VAT and NBT on financial services	1,899		1,895	
Debt Repayment Levy*	215			
	3,591	24.86	4,121	28.53
To shareholders				
Dividends	915		1,241	
	915	6.34	1,241	8.60
To expansion and growth				
Retained earnings	2,274		3,189	
Depreciation and amortisation	746		696	
	3,020	20.91	3,885	26.90
	14,443	100.00	14,443	100.00

* Debt Repayment Levy was introduced with effect from 1 October 2018.

SHARE PRICE FLUCTUATION



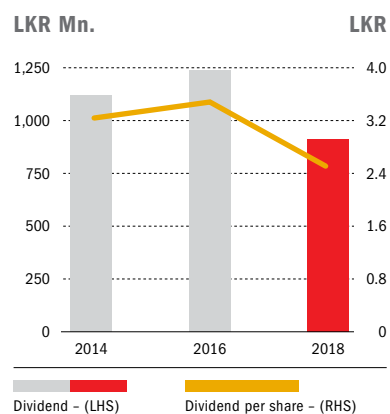
COMPOSITION OF SHARE OWNERSHIP

The analysis of the distribution of ownership as at 31 December 2018 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.

DIVIDEND AND DIVIDEND PER SHARE



FINANCIAL REPORTING AND COMPLIANCE

The Bank keeps its stakeholders and the general public informed of its financial position primarily through the Annual Report and Interim Reports.

The Financial Statements and related Notes contained in this report have been audited by the External Auditors, 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 Lanka Accounting Standards Monitoring Board for their review of compliance with applicable Accounting Standards.

The Bank is committed to publishing its Annual Report and Interim Reports in a timely manner and submitting the required information to the Colombo Stock Exchange (CSE) on or before the stipulated dates. The Interim Financial Statements for 2018 were published well in advance to assist the investment decisions of investors and other stakeholders.

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	Awarded by	Award Type
Non-traditional Annual Report: Banks: Local	ARC Awards 2018	Gold
Interior Design: Banks: Local	ARC Awards 2018	Bronze
Financial Data: Banks: Local	ARC Awards 2018	Honours
30 Best Performing Corporates	Business Today Magazine	11th Position
The Most Admired Company	CIMA	Honours
Banking Industry Front Liners	SLIM National Sales Congress 2018	Gold
Banking Industry Sales Executives (Housing Loans)	SLIM National Sales Congress 2018	Gold
Banking Industry Sales Executives (Personal Loans)	SLIM National Sales Congress 2018	Bronze
Banking Industry Sales Support	SLIM National Sales Congress 2018	Silver
Special Recognition Award for Trade and Other Payments, reflects efficiency, superior transaction processing quality with a low inquiry ratio	Wells Fargo Bank N A New York	Excellence Award
Excellence in Branding and Marketing	Golden Globe Tigers Awards	The Winner
Best Campaign Innovation	Golden Globe Tigers Awards	The Winner
Campaign of the Year	Golden Globe Tigers Awards	The Winner
Excellence in Digital Marketing	Golden Globe Tigers Awards	The Winner
Excellence in Cards and E-Payments	Golden Globe Tigers Awards	The Winner
Brand Revitalisation Award	Global Marketing Excellence Award	The Winner
Emerging Brand of the Year	Global Marketing Excellence Award	The Winner
Best New Entrant Category	SLIM Brand Excellence Awards 2018	Silver

FUTURE OUTLOOK

- Higher Return on Assets (ROA) and Return on Equity (ROE) is considered mandatory for the sustained success of the Bank's operations.
- Improving risk management and compliance with Basel III and SLFRS 9 requirements are three areas of particular focus.
- Enriching the banking functions within a proper economic integrated framework based on the country's economic outlook.
- Banks are likely to come under increased capital pressure from Basel III-related requirements.

Satisfied Customers

Keeping customers satisfied and loyal, by constantly exceeding their expectations, remains at the forefront of the Bank's approach to business

RESPONSIBILITIES TO CUSTOMERS

The Strategic Plan 2020 is designed towards strengthening the Bank's customer centric approach to provide products and services while enhancing the stakeholders' experience and convenience. The change of the operating rhythm from mere service culture to service plus sales through Relationship Officers at branches and expanding the digitalisation of services are the main initiatives implemented to reach these objectives.

- **Products to meet customers' needs**

Ability of the Bank to meet customer needs is central to their satisfaction. In this regard, the Bank focuses on the design and functionality of each product that is introduced, taking into account those factors that make it attractive to the customers. This is then followed up in delivering their experience in the most convenient and efficient way possible.

- **Improving customers' experience and convenience**

Backed by digitalisation, the Bank's operations continue to make our products available through the most convenient avenues. While this will prove

attractive to those familiar with electronic platforms, the Bank also caters to those who may not be comfortable accessing the Bank's services and products through these methods. The Bank's branch network, numbering 170 and located throughout the country is available with highly trained staff, to assist those customers who prefer a face-to-face conference in finding solutions to their requirements. This further underlines Seylan to be the "Bank with a Heart".

VALUE CREATION AND PRODUCT INNOVATION

The Bank attempts to cater to all segments of society and add value to their lives through the products we offer. Our expectations in the delivery of services extend to the health and well-being of our customers, their respect as individuals and appreciation and recognition for their loyalty and support to the Bank.

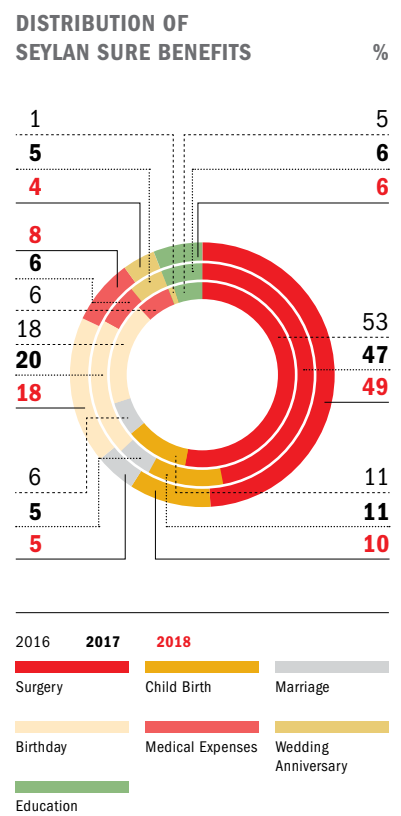
We promote these objectives through various products and schemes.

SEYLAN SURE

"Seylan Sure" is one such product that offers benefits to the Bank's loyal, savings and current account customers. The primary objective is to extend

support to customers in need of moral and financial support.

The distribution of Seylan Sure benefits in 2018 was as follows:



PRODUCT PORTFOLIO

Product	Description	Value delivered	Market served	
LENDING PRODUCTS				
Seylan Home Loans		Home Loans up to LKR 100 Mn. for construction or purchase of a house or apartment	Fixed interest rates, documentation support and advisory with doorstep service	Primarily salaried individuals, professionals and businessmen
Seylan Loan Against Property		Loans made available against your residential property to upgrade your lifestyle, grow your business or for investments	Fixed interest rates and doorstep service	Salaried individuals with residential property under their name
Seylan Pawning		Cash advance against gold	Interest benefits	Individual clients
Seylan Leasing		Finance leases for vehicles, motorcycles, machinery, plant and equipment	Interest benefits	Corporate, SME, retail and individual clients
Seylan Personal Loans		Personal loan for any related purpose	Fixed Interest rates, doorstep service and approval within two days	Salaried individuals employed at reputed companies, professionals, government servants and armed forces
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	Generates working capital	Corporate, SME, retail and individual clients
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
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 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, 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 select the time period of the fixed deposit	Interest benefits	Corporate, SME, retail and individual clients
Seylan Shakthi		4-year fixed deposit	Interest and reward benefits	Retail clients
5star		5-year fixed deposit	Interest and reward benefits	Retail clients
Seylfie		Youth account with rupee and digital interest option	Rupee interest, digital interest and reward benefits	Youth aged between 18-26 years
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		Savings account for monthly regular income earners	Interest and reward benefits	Individuals who earn a regular monthly income
OTHER OFFERINGS				
Seylan eBanking		Able to carry out a variety of banking functions at their convenience by the click of a button	Low charges 24 x 7 accessibility	Corporate, SME, retail and individual clients, minor and credit cardholders
SEY Cash		Bank's remittances platform	Commission benefits	Individual clients
SMS Banking		Opportunity to carry out selected banking functions via SMS	Free up to a number of SMSs and convenience	Corporate, SME, retail and individual clients, minor and credit cardholders
Seylan Suhada Sewa		Dedicated service for those people in the society in need of attentiveness	Free of charge and convenience	Clergy, senior citizens, differently-able people, pregnant ladies and mothers with infants

Responsible and transparent communication of the features of our products, gives our customers confidence. Their continued patronage of our Bank is testimony to the quality and value they derive from the use of our range of products

CUSTOMER AND PRODUCT RESPONSIBILITY

Truth in advertising and ethical communication guide is in the Bank's representation of its products and services. There is complete transparency in the service delivery process and the products that are offered by the Bank.

The Bank offers a wide range of products and financial services, aimed at solving the needs of the community along with products that appeal to different market segments of the population. In safeguarding the interests of its customers, the Bank complies with regulatory requirements and adheres to a strict risk management regime through internal controls, documented policies and procedures and embedded security measures in systems. The products and services that have been pioneered by the Bank, and which are designed to enhance the convenience and experience of the customers, comply with all applicable laws and/or regulations.

Better communication of products and service details, improve customer service quality. We want our customers to properly understand how our products and services meet their needs, so they are able to make informed financial decisions. The key focus in product responsibility is to aim for complete transparency and simplicity across the service delivery process and its product offerings.

The Bank ensures all health and safety requirements in its products and services to ensure customer satisfaction and safety.

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

In addition to the wide range of products (listed above) offered by the Bank, it is continually striving to make use of evolving technology to tailor services to meet customers' expectations.

Consequent to adopting service models that encompass highly trained personnel at the branches and the digitalisation of operations, Seylan Bank has emerged as a leading financial services provider, with services to customers that extend beyond that of a mere functioning portal.

PROVIDE CUSTOMERS WITH CUSTOMISED SOLUTIONS THROUGH SME HUBS

The Bank's responsibility to facilitate the development of the SME sector and thus contribute to the development of the country's economy, sits well with the Bank's role in servicing the borrowing needs and other services such as consultancy, financials etc of that sector.

We offer purpose-built solutions to assist SME's and extend support to them as they face many challenges in the current economic environment. We have also adopted a number of initiatives during the year to accelerate the growth of this sector and enhance the market penetration to the SME segment.

KEY INITIATIVES EXECUTED TO ENHANCE CUSTOMER EXPERIENCE THROUGH SME HUBS

- Setting up a fully functioning SME business unit that will focus on SME banking.
- Roll-out of SME hubs covering all regions with the aim of improving turnaround time and credit quality.
- Launch of SME Relationship Officer model (SME RO) with the aim of canvassing new relationships.
- Roll-out of "out-grower farmer" scheme at Ethimale plantation.
- Conducting capacity building programs for SMEs.
- Signing up for Government interest subsidy schemes under enterprise Sri Lanka.

SME hubs have been located throughout our region across the country. (West, North West II, Suburbs I, Uva Sabaragamuwa, Metropolitan II, Central, North, North Central, South, East, North West I and Suburbs III)

OUR GEOGRAPHICAL PRESENCE



North Western Province

Kurunegala	11	12
Puttalam	7	7

Central Province

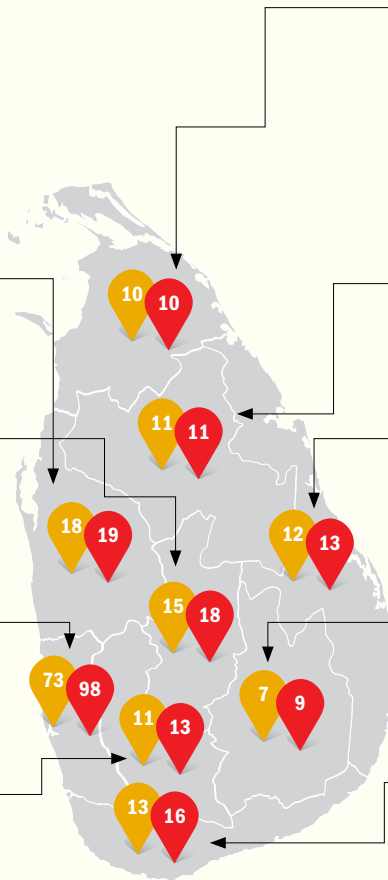
Kandy	9	11
Matale	2	2
Nuwara Eliya	4	5

Western Province

Colombo	41	51
Gampaha	21	32
Kalutara	11	15

Sabaragamuwa Province

Kegalle	6	7
Ratnapura	5	6



Northern Province

Jaffna	6	6
Killinochchi	1	1
Mannar	1	1
Mullaitivu	1	1
Vavuniya	1	1

North Central Province

Anuradhapura	7	7
Polonnaruwa	4	4

Eastern Province

Ampara	6	7
Batticaloa	4	4
Trincomalee	2	2

Uva Province

Badulla	4	6
Moneragala	3	3

Southern Province

Galle	5	7
Hambantota	4	4
Matara	4	5

IMPROVE CUSTOMER CONVENIENCE THROUGH DIGITALISATION

Seylan Bank has invested in the latest technologies to support the digitalisation of its operations and provide customers with increased convenience and efficiencies.



OUR STRENGTH ON SOCIAL MEDIA



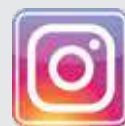
2018	622,201
2017	611,072
2016	518,345



2018	7,857
2017	3,267
2016	2,064



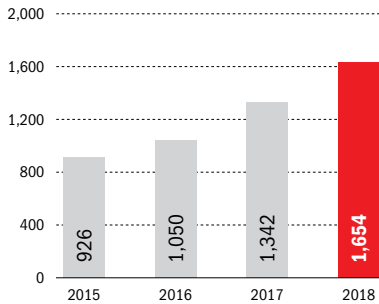
2018	3,901
2017	3,643
2016	3,344



2018	12,700
2017	13,087
2016	7,923

GROWTH IN NUMBER OF VISITORS TO THE CORPORATE WEB

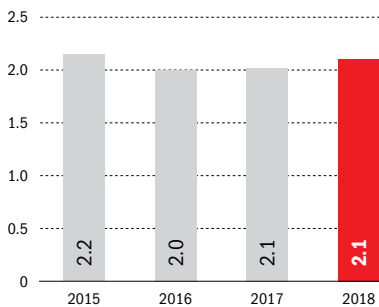
Nos. '000



▲ Change: 23%

AVERAGE TIME SPENT

Mins.



KEY INITIATIVES ADOPTED TO ENHANCE CUSTOMER CONVENIENCE

- Implementation of the first cheque deposit kiosk to automate the outward cheque scanning at branches and process customers transactions quickly.
- Introduction of customs and EPF payments via Internet Banking.
- Enabling bulk salary file upload through Internet Banking.
- Installed ATMs, CDMs, and cheque deposit machines in many branches providing 24 x 7 access.
- Decentralisation and training of the signature capturing system at branches to reduce turnaround times.
- Introduction of "Remittance card".
- Introduction of loan originating system (LOS) for lease approvals.
- Opened 20 Multi Service Counters across the branches.

BUILD DYNAMIC AND EFFICIENT CUSTOMER RELATIONSHIP FORCE

The Bank has continued its initiative in taking the Bank to the customer by training and empowering the Relationship Officers at branches. Their skills continue to be enhanced to enable them to

educate customers on the products and services offered by the Bank and the benefits of using Seylan Bank to meet their banking needs.

KEY INITIATIVES ADOPTED DURING THE YEAR TO BUILD EFFICIENT CUSTOMER RELATIONSHIP OFFICERS

- Launch of SME Relationship Officer model to increase the SME lending portfolio of the Bank.
- Continuous training on marketing and sales, internal marketing drive and regional workshops.

CUSTOMER HEALTH AND SAFETY

Health and safety is a part of the core values of the Bank. At Seylan Bank, we are committed to providing a safe physical environment for our customers and one which meets the health and safety standards required by the Government. Appropriate policies, procedures and safeguards are in place and all risks assessed, managed and escalated according to the Bank's risk management framework.

Our Bank has deployed trained security personnel from reputed security firms at head office and at every branch. In addition, each branch is equipped with an alarm security system and CCTV cameras to ensure the safety of our customers and employees. The Bank's Security Department also conducts various training programmes for the security personnel, apart from those conducted by the security firms themselves. Fire drills are conducted periodically to ensure all staff are aware of the relevant procedures and are able to direct and assist customers in the event of an emergency.

There were no incidents of non-compliance concerning the health and safety of the Bank's products.

PRODUCT/SERVICE LABELLING AND MARKETING COMMUNICATION

The Bank's product development committee screens its multi-layered range of products and banking solutions to ensure they comply with statutory regulations and the Bank's product policies.

The Bank communicates with its stakeholders, accurate and relevant information relating to the features and pricing of its products, such as interest rates, fees, commissions, charges, tariffs and the terms and conditions.

The dissemination of this information is in three languages (Sinhala, Tamil and English), via various channels, including brochures, digital and non-digital display boards and other electronic and printed media.

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. The protection of the customers privacy and the maintenance of confidentiality thus becomes a primary task of the Bank in handling large volumes of sensitive information that is generated from a wide array of banking transactions.

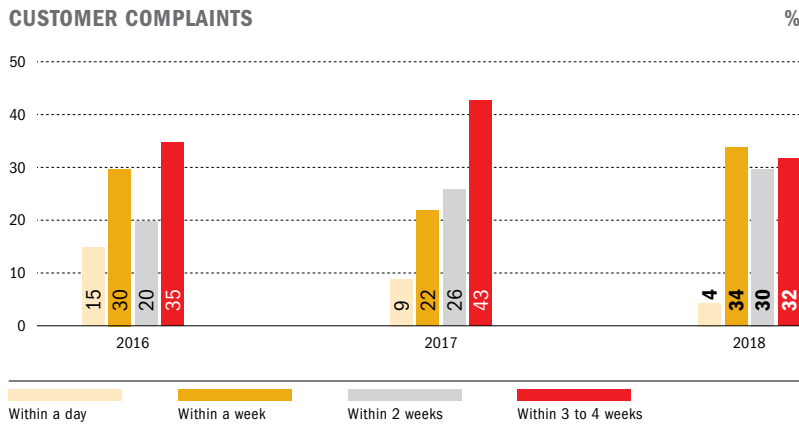
The Bank's Audit and Inspection department conducts periodic reviews to ensure that all departments and business units adhere to stipulated guidelines issued by internal and external regulators.

During the period covered by this Report, there were no incidents recorded of non-compliance with rules, regulations or ethics in product/service labelling, marketing communication or breaching of customer privacy.

CUSTOMER COMPLAINTS

Seylan Bank has a formal customer complaints handling policy where complaints are promptly addressed and resolved fairly and effectively. 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. We also have a separate unit called "service quality" to address the social media, and branch customer queries.

The following chart shows the time taken to resolve complaints:



COMPLIANCE

No incidents of non-compliance with regulations and/or voluntary codes concerning product and service labelling or marketing communication were reported during the year. Similarly, there were no incidents of breaches of customer privacy and losses of customer data during the year. The Bank does not sell or market products or services which are banned or disputed in the market or are subject to stakeholder or public debate. Therefore, the Bank did not incur any fines or litigation arising from any statutory violations.

CUSTOMER SATISFACTION AND MYSTERY SHOPPER SURVEY

To gauge the level of satisfaction amongst its customers, the Bank conducts “customer satisfaction and mystery shopper surveys” annually. The specific objectives of these surveys are:

- To assess the current service quality standards vis-à-vis competition.
- To set up minimum service quality standards for the future.
- To take action to improve service quality standards through findings of the survey.
- To adopt a continuous monitoring system.

The overall “mystery shopper” satisfaction level was at 76% in 2018.

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 the 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 offered by the Bank.

The Bank also, does not finance any project which is illegal, as clearly documented in our credit policy manual.

FINANCIAL SERVICES FOR DISADVANTAGED PEOPLE

The Bank takes several steps, as shown below, for disadvantaged persons to access its products and services.

- Publish advertising material in three languages.
- Provide wheelchair access in most of the branches
- Conduct “Tikiri Kids Banking” day events through the branch network to enhance financial literacy amongst parents, who are the custodians of their childrens’ bank accounts.

FUTURE OUTLOOK

Seylan Bank has always conducted its business, taking into account, the varying needs of customers. While the sustainability of business is paramount, it is conscious of positioning its operations to better service the customers efficiently and effectively.

With this in mind, the Bank will be undertaking the following initiatives to promote its offerings to the public:

- Expand the branch network in selected districts
- Open multi service counters in more branches to provide customers a speedy and convenient service
- Expand student savings centres to boost CASA of the Bank
- Expand on site and off site ATMs and CDMs with special features
- Introduce doorstep banking for senior citizens, high net worth individuals, etc.
- Launch high net worth credit cards
- Introduce consumer insights and brand health surveys

Motivated Employees

The Bank continues to recognise the significant role played by the employees in achieving its goals. Their active participation, commitment and loyalty demonstrate their dedication to the values espoused by the Bank

“To win in the marketplace, you must first win in the workplace”

– Doug Conant

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.

The role of the employees in the sustainability and success of the Bank is undisputed. To this end our values encompass the respect with which our employees are treated and our desire to provide a work environment that promotes good health and safety and engenders contented and motivated persons.

The Bank encourages diversity and adopts a “no-discrimination” stance in the selection and engagement of the workforce. At 31 December 2018, this diverse workforce numbered 3,344 employees (where 144 are sales force). The male/female gender split of 57%/43% is encouraging the mix of youth and experience in guiding the affairs of the business and positioning it for the future.

The key strategies adopted during the year were:

- Competency development by multi-skilling employees in the branches and enabling the participation of employees in servicing the multiple service counters at the branch;
- Strengthening the performance driven environment across the Bank by continuing the “mind for success” programme;
- Technical/functional based competency development aimed at creating a talent pool to ensure availability of required skills for new business initiatives;
- Fast tracking career progressions to occupy junior and middle level positions and meet the demands of the business;
- Redeployment of staff for new business initiatives;
- The Bank changed its gratuity policy. As explained in Note 48.1 in the Financial Statements.

STAFF STRENGTH 2018



EMPLOYEES ANALYSED BY TYPE OF EMPLOYMENT CONTRACT

		2018	2017	2016	2015	2014
Full time	Other staff excluding Sales force	3,200	3,091	3,165	3,085	2,947
	Sales force	144	108			
Part time		-	-	-	-	-
Total		3,344	3,199	3,165	3,085	2,947
Permanent		2,989	2,931	2,790	2,843	2,829
Contract	Sales force	144	108			
	Other contract staff	35	28	65	22	11
Trainees		176	132	310	220	107
Total		3,344	3,199	3,165	3,085	2,947

EMPLOYMENT CONTRACT BY REGION

Province	Number of Staff			Total
	Permanent	Contract	Trainee	
Central	161	-	7	168
Eastern	85	-	18	103
Northern	73	-	13	86
North Central	72	-	8	80
North Western	122	-	7	129
Sabaragamuwa	107	-	6	113
Southern	130	-	7	137
Uva	48	-	3	51
Western*	2,191	179	107	2,477
Total	2,989	179	176	3,344

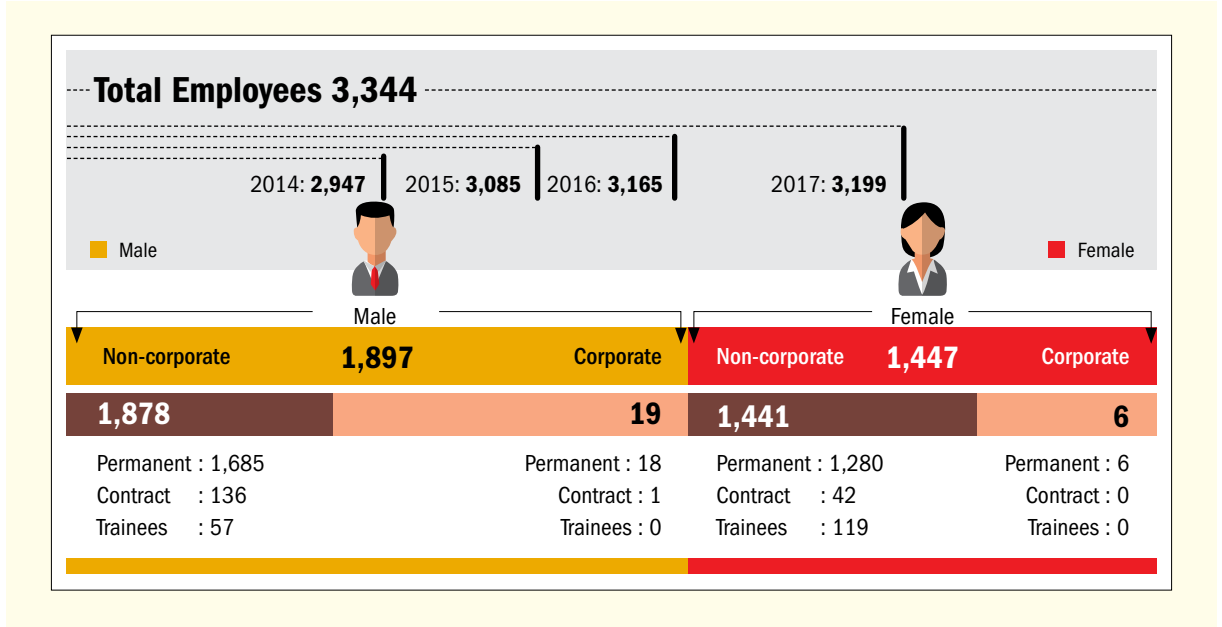
*Including head office staff

EMPLOYEES ANALYSED BY GRADE AND AGE AS AT 31 DECEMBER 2018

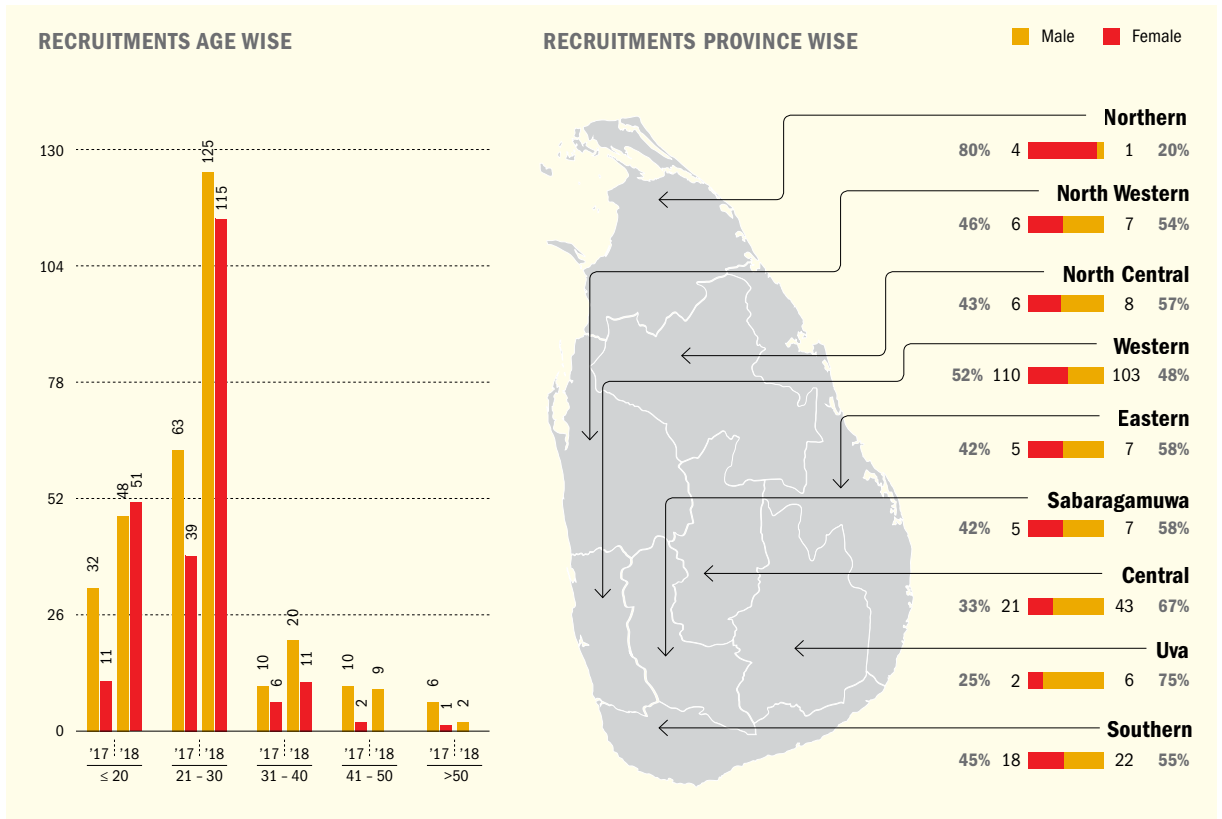
Age	Corporate management		Middle management		Operational management		Others	
20 or below	-	-	-	-	-	-	22	30
21-30	-	-	3	-	12	9	332	438
31-40	2	-	19	6	244	97	403	304
41-50	11	3	105	44	379	347	244	91
Above 50	6	3	39	14	24	50	52	11

■ Male ■ Female

EMPLOYEES ANALYSED BY TYPE OF EMPLOYMENT CONTRACT AND GENDER



RECRUITMENTS



Redeployments provide greater opportunities to employees in expanding their boundaries. Training provided in multi-skilling of employees and competency development have opened up new horizons in their work environment

EMPLOYEE TURNOVER

The following chart shows the turnover of employees by age and gender. Employees resign for a variety of reasons such as, further studies, personal reasons, to migrate to other countries, to retire and to take advantage of better offers from other employers.

EMPLOYEE TURNOVER BY AGE AND GENDER

Age	2018			2017		
	Male	Female	Total	Male	Female	Total
20 or below	19	7	26	8	4	12
21-30	60	53	113	26	27	53
31-40	24	19	43	15	18	33
41-50	22	8	30	10	11	21
Above 50	11	6	17	17	9	26
Total	136	93	229	76	69	145

EMPLOYEE TURNOVER BY PROVINCE

Province	2018 Turnover	%
Central	26	11
Eastern	8	3
Nothern	6	3
North Central	2	1
North Western	7	3
Sabaragamuwa	11	5
Southern	19	8
Uva	2	1
Western	148	65
Total	229	100

Note: Including sales staff

EMPLOYEE BENEFITS

All permanent employees enjoy a variety of benefits, in addition to their salaries which are governed by a collective agreement.

- 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 (reimbursement of membership fees of professional bodies)
- Critical illness cover
- Life assurance scheme for staff

	2018 LKR '000	2017 LKR '000	2016 LKR '000
Staff salaries			
Basic salary	3,352,891	2,956,081	2,634,154
EPF 12%	401,426	354,475	316,171
ETF 3%	100,357	88,618	79,067
Total	3,854,674	3,399,174	3,029,392
Other benefits			
Holiday pay	132,822	113,897	105,172
Medical	108,022	78,509	76,875
Bonus	573,758	536,251	466,006
Insurance	124,334	123,283	116,345
Welfare	66,372	66,055	63,300
Other allowance/benefits	674,810	632,175	530,165
Amortisation of prepaid staff cost	247,541	246,519	222,818
Total other benefits	1,927,659	1,796,689	1,580,681
Total benefits	5,782,333	5,195,863	4,610,073
Training cost	40,536	39,051	25,571
Total benefits including training cost*	5,822,869	5,234,914	4,635,644
Number of staff	3,344	3,199	3,165
Average benefits per employee	1,741	1,636	1,465

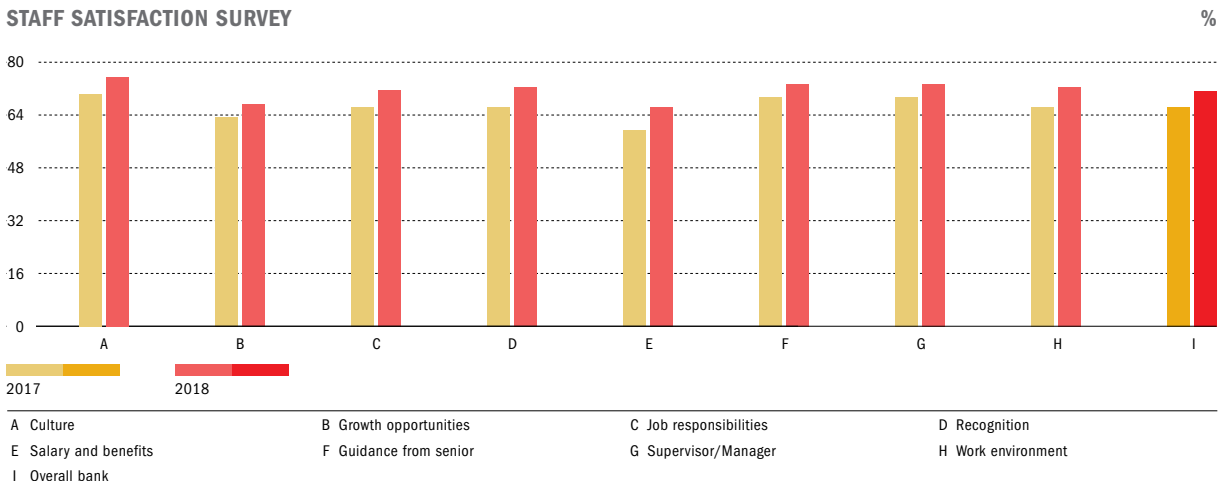
The average cost per employee increased from LKR 1.64 Mn. in 2017 to LKR 1.74 Mn. in 2018.

* Excluding additional gratuity expense

STAFF SATISFACTION

The Staff Satisfaction Survey attempts to assess the morale of the staff and effectiveness of the Bank's human resources policy. The results of the survey conducted in 2018 are as follows:

STAFF SATISFACTION SURVEY



Employees who obtained parental leave and returned to work

	2018	2017	2016	2015
Number of staff	57	45	54	75
Returned to work (%)	100	100	100	100

RECOGNITION AND MOTIVATION

The Bank adopts a formal appraisal process which is used to articulate the Bank's vision and provide a uniform message to the employees of the current activities and the future direction of the Bank. This is also an opportunity to have a dialogue with the personnel and obtain feedback from them on the conduct of the Bank's affairs and their opinions.

The Bank also operates employee award schemes to celebrate successes and inspire others to reach their goals. Branches that achieve their KPIs are rewarded with additional benefits. This scheme is being evaluated annually and updated in a bid to give the employees more benefits and motivate them further.

The criteria for the rewards, set by a subcommittee consisting of Senior Management, are announced to the staff in advance to ensure the evaluation process is transparent.

GENDER EQUALITY

The equal treatment of males and females is fundamental to the Bank's values and extends to selection and appointments, continuing professional development (CPD), training and remuneration.

EMPLOYEE COMPOSITION BY GENDER

	2018					2017				
	Male	%	Female	%	Total	Male	%	Female	%	Total
Corporate management	19	76	6	24	25	21	75	7	25	28
Middle management	166	72	64	28	230	153	71	63	29	216
Operational management	659	57	503	43	1,162	599	56	477	44	1,076
Others	1,053	55	874	45	1,927	1,074	57	805	43	1,879
Total	1,897	57	1,447	43	3,344	1,847	58	1,352	42	3,199



Male

57%

43%

Male Female



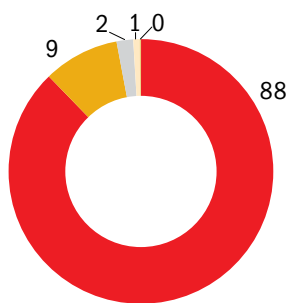
Female

DIVERSITY AND INCLUSION

Diversity and inclusion are qualities that are embedded in the culture of the Bank. Workplace diversity fosters mutual respect amongst employees and celebrates each other's achievements without bigotry.

Seylan believes it is stronger as an employer because of the diversity of its workforce.

WORKFORCE BASED ON THE ETHNIC GROUP



Sinhalese

Tamil

Muslim

Burgher

Other



	2018			2017		
	Male	Female	Total	Male	Female	Total
Sinhalese	1,675	1,259	2,934	1,626	1,172	2,798
Tamil	159	152	311	160	146	306
Muslim	47	21	68	46	19	65
Burgher	12	14	26	13	13	26
Other	4	1	5	2	2	4
Total	1,897	1,447	3,344	1,847	1,352	3,199

WORKFORCE BY PROVINCE AND GENDER

The Bank's workforce is predominantly from the Western Province (74%). Its recruitment practices are being directed towards reducing its reliance on engagement of resources from this province and spreading its source of employees to other provinces too.

Province	2018						2017					
	Number of banking centres	Number of staff	Male	%	Female	%	Number of banking centres	Number of staff	Male	%	Female	%
Central	15	168	85	51	83	49	15	197	107	54	90	46
Eastern	12	103	61	59	42	41	12	120	73	61	47	39
Northern	10	86	51	59	35	41	10	108	69	64	39	36
North Central	11	80	59	74	21	26	12	103	79	77	24	23
North Western	18	129	81	63	48	37	15	144	91	63	53	37
Sabaragamuwa	11	113	66	58	47	42	10	130	80	62	50	38
Southern	13	137	86	63	51	37	13	160	103	64	57	36
Uva	7	51	38	75	13	25	7	60	44	73	16	27
Western*	73	2,477	1,370	55	1,107	45	72	2,177	1,201	55	976	45
Total	170	3,344	1,897	57	1,447	43	166	3,199	1,847	58	1,352	42

*Including head office staff

REMUNERATION BASED ON THE GENDER

	2018							2017						
	Basic salary (monthly) LKR Mn.		Total number of staff		Average basic salary (monthly) LKR Mn.		Salary ratio	Basic salary (monthly) LKR Mn.		Total number of staff		Average basic salary (monthly) LKR Mn.		Salary ratio
	Male	Female	Male	Female	Male	Female	M/F	Male	Female	Male	Female	Male	Female	M/F
Corporate management	7.81	2.28	19	6	0.41	0.38	1.08:1	9.34	2.47	21	7	0.44	0.35	1.26:1
Middle management	33.97	12.86	166	64	0.20	0.20	1:1	28.74	11.49	153	63	0.19	0.18	1.06:1
Operational management	64.78	50.81	659	503	0.10	0.10	1:1	54.15	43.74	599	477	0.09	0.09	1:1
Others	58.11	45.76	1,053	874	0.06	0.05	1.2:1	56.39	41.18	1,074	805	0.05	0.05	1:1

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	8	6	1	0	0	10	25
Middle management	53	3	3	8	10	153	230
Operational management	49	12	101	184	204	612	1,162
Others	664	185	432	299	139	208	1,927
Total	774	206	537	491	353	983	3,344

TRAINING AND EDUCATION

TRAINING PROGRAMMES ON E-LEARNING PLATFORMS



For Front liners, Officers, Executives

No. of Staff Completed
1,223



For Front liners

No. of Staff Completed
1,116



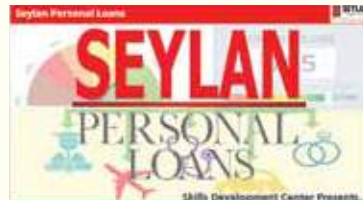
For all staff

No. of Staff Completed
1,182



For Front liners, Officers, Executives

No. of Staff Completed
729



For all staff

No. of Staff Completed
765



For Front liners, Officers, Executives

No. of Staff Completed
811



For all staff at branches

No. of Staff Completed
626

The Bank has long recognised that training and continuous professional development are essential ingredients to the progress of the individual and the success of the Bank. Seylan 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 are kept informed of available training through the circulation of the monthly training calendar amongst all staff.

Seylan Bank approaches the development of its human resources from the belief that it is far more beneficial to develop and promote from within, thereby creating a rich pool of talent available to occupy positions of responsibility throughout the Bank.

Employees are aware of the Seylan Bank's values, principles, vision and its direction to achieve the goals. Bank conducts induction programmes to educate newly joined staff on the Bank's vision, mission and norms of behaviour.



NUMBER AND DURATION OF TRAINING PROGRAMMES

	2018			2017		
	Number of programmes	Training hours	Number of participants	Number of programmes	Training hours	Number of participants
Internal	196	58,337	4,967	234	69,236	5,391
External	109	3,870	251	125	4,998	362
Foreign	20	768	29	8	496	11
Online learning	7	25,808	6,452	2	3,880	970
Total	332	88,783	11,699	369	78,610	6,734

This year's highlights on staff training are as follows:

- A Development Center was conducted for 10 Assistant General Managers and 20 Chief Managers of the Bank to identify their leadership potential and capacities in eight leadership competencies based on our competency framework.
- Training and development was migrated into E-learning. Seven programmes were developed and made available for various target groups for mandatory type and contents which need frequent retrieval and reinforcement.
- Introduced competency framework to identify the competency gaps and train & develop staff members for effective functioning and performance achievement.
- Regional training programmes were conducted for 927 participants on credit management, branch operations, product knowledge, marketing, and international trade
- 9 team building programmes were conducted covering 478 staff members to enhance team spirit and synergy.
- Structured training programs were conducted to enhance competencies of staff members assigned to new job positions, which were introduced through the strategic plan:
 - Relationship officers
 - Credit analysts attached to SME hubs
 - Banking assistants attached to multi service counter operations
- Area manager development programme – 15 newly assigned area managers and potential area managers were taken through a six month area manager development programme to groom them to take-up functions arising in the future.
- 42 staff members attached to specialised positions were sent on 27 specialised training programmes to improve their knowledge and skills in various specialised areas, such as, IT, finance, human resource management, marketing, treasury, risk management, compliance, etc.
- A new retail business model was developed for branch managers.
- A comprehensive advanced credit management training programme was conducted comprising a total of 39 branch managers, credit analysts, credit officers with a view of improving their credit evaluative and credit risk management skills.
- Basic credit programmes were conducted covering 122 participants whom are new to credits, providing them with comprehensive credit exposure.
- 29 staff members participated in 20 overseas training programmes on specialised disciplines that are not available in Sri Lanka/requiring overseas exposure.

TRAINING HOURS BY TYPE OF TRAINING

	2018			2017		
	Number of programmes	Training hours	Number of participants	Number of programmes	Training hours	Number of participants
General banking practices	183	26,147	1,958	224	32,874	1,793
Professional development	25	4,882	488	16	3,700	540
Communication and negotiation skills	17	2,918	207	11	2,122	182
Marketing and marketing communications	23	7,326	671	27	9,708	833
HR management, staff/personnel development	40	14,478	820	46	16,796	1,006
Compliance and specialised areas	37	7,224	1,103	43	9,530	1,410
Online - learning	7	25,808	6,452	2	3,880	970
Total	332	88,783	11,699	369	78,610	6,734

AVERAGE TRAINING HOURS BY EMPLOYEE CATEGORY

	2018 Average training hours			2017 Average training hours			2016 Average training hours		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Corporate management	14	6	20	10	6	16	10	7	17
Middle management	20	12	32	17	12	29	14	11	25
Operational management	36	26	62	32	28	60	22	16	38
Others	118	86	204	104	85	189	72	53	125

ANALYSIS OF ACADEMIC AND PROFESSIONAL QUALIFICATION HOLDERS BASED ON AGE AND GENDER

	2018					2017				
	Academic qualifications		Professional qualifications		Total	Academic qualifications		Professional qualifications		Total
	Female	Male	Female	Male		Female	Male	Female	Male	
Below 20	-	-	2	1	3	-	-	-	-	-
21 - 30	10	5	124	72	211	12	5	125	73	215
31 - 40	51	75	225	295	646	48	69	221	296	634
41 - 50	81	110	254	285	730	79	106	234	277	696
Above 50	14	12	22	33	81	9	9	18	28	64
Total	156	202	627	686	1,671	148	189	598	674	1,609



TRAINING FOR AWARENESS

Circulars and internal memos are the main avenues used to communicate information and news on product development, policies, procedures, regulatory changes and developments.

The communiqués 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. Training, as required, is conducted on all new products and procedures. Most of these are available on the bank's intranet for staff to access at any given time.

EMPLOYEE SPORTS AND OTHER ACTIVITIES

Participation in sporting activities by the staff, features high on the agenda of Seylan Bank in fostering positive interaction and communication amongst its employees. Many sporting and cultural activities are held during the year to maintain staff motivation levels, encourage networking and bonding and promote team spirit by sourcing discounts and concessions from external organisations and organising events such as *Bakthi Gee*, Christmas Carols etc.

The Seylan welfare committee plays a major role in these programmes.

OCCUPATIONAL HEALTH AND SAFETY (OHS)

The health and safety of our employees is of paramount importance to us and we are vigilant about controlling the health, safety and environmental risks in the workplace. Employees are required to comply with the Bank's safety procedures and avoid any loss or damage to persons or property since the Bank, whilst ensuring the safety of the employees, must also protect its property and that of its customers. Therefore, the Bank reserves the right to inspect any person within the premises and/or items brought into and taken out of the premises.

The Bank also ensures that the business continuity plan is in place and reviews it annually. 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.

	2018	2017	2016
Staff covered by the health plan (%)	100	100	100
Average medical claims per employee (LKR)	32,303	24,542	24,289
Occupational inquiry	Nil	Nil	Nil
Number of occupational diseases	Nil	Nil	Nil
Number 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.

At Seylan Bank, we are committed to respecting the human rights of our employees. We embed this commitment through our policies and procedures. 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 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/or 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 Bank provides opportunity for individual employees to raise their grievances arising from work

relationships through various forums. The Bank's online portal "Log your Concern" encourages staff to forward all their grievances with the assurance of a response within 48 hours. A committee headed by DGM HR addresses all performance related grievances. Further, staff members could raise their grievances with their respective supervisors or directly forward same to the Employee Relations Manager. All grievances that are received irrespective of the mode are dealt promptly, fairly and in a timely manner.

NON-DISCRIMINATION, FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

The Bank has had no incidents of discrimination to date and has a zero tolerance policy on child labour. The Bank promotes equality of treatment and prohibits harassment in the workplace. It is committed to high standards of ethical and professional behaviour and expects all staff members to be treated with equal respect.

The Bank recognises the Ceylon Bank Employees' Union (CBEU) and Seylan Bank Employees Union (SBEU) in which 93% of its staff across all grades are members, as a consultative and supportive group that articulates a forum for collective bargaining, grievance handling, career counselling and creating a healthy working environment for the employees.

WHISTLE-BLOWERS PROTECTION

Seylan Bank seeks to ensure that any staff member who may become aware of unauthorised or inappropriate activity, which may have an adverse impact on the reputation of the Bank, is provided with appropriate channels to raise such concerns.

The Bank's Whistle-Blowing Policy is intended to make it easier for staff members to report in good faith, any

serious irregularity without having to fear that their actions may have adverse consequences upon themselves. This policy will apply to all staff members and stakeholders of the Bank, irrespective of their position, location or seniority.

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 satisfactorily at the Head Office and at all branches. 60% of the security personnel have received formal training in the organisation's human rights policies or specific procedures and their application to security of the Bank.

CHILD LABOUR, FORCED OR COMPULSORY LABOUR, INDIGENOUS PEOPLES' RIGHTS AND ASSESSMENTS

	2018	2017	2016
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 is reported in Note 48 of the Financial Statements.

KEY PERFORMANCE INDICATORS – LABOUR RELATIONS AND HUMAN RIGHTS

	2018	2017
CBEU and SBEU Membership	3,104	3,170
Membership (%)	93	99
Number of hours of staff trained on HR policies and procedures relevant to operation	352	246

MINIMUM NOTICE PERIOD

The Bank initiates 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 months 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 its employees:

- 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 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;
- Introduced flexi working hours to help employees manage their personal as well as official responsibilities.

FUTURE OUTLOOK

The Bank will focus on the following in the year ahead:

- Strengthening the sales and relationship management proposition in branch banking;
- Firming up on cost effective sourcing strategies;
- Transforming general banking job roles into “sourcing new business” channels;
- Making changes to the Performance Management System to manage performance-based rewards effectively;
- Migrating delivery of training to the On-line platform and decentralising the provision of training;
- Consolidating multitasking job roles in branch banking to accommodate a lean structure and focus on more customer interaction.

Trusted Partners

Commitment to building relationships with suppliers and business partners and conducting business in an open and transparent manner, resulted in long term binding relationships

Seylan Bank is committed to the fair treatment of businesses that supply goods and services to the Bank and in turn expects them to operate responsibly, in-line with the values espoused by the Bank.

The Bank has maintained a consistent quality of operational service levels in the global payment community, consisting of trade and other payments, which reflects efficiency, superior transaction processing quality coupled with a low inquiry ratio. This led to the receipt of a "Special Recognition Award" for 2017/18, conferred by Wells Fargo Bank, N.A., the Bank's main USD correspondent bank. The award has been presented to only 10% of 1,500 correspondent banks around the world. Seylan Bank is the only Sri Lankan bank to receive this award for the second successive year.

LOYAL RELATIONSHIPS

The Bank has general memberships in a number of sectoral, industrial and professional organisations which help the Bank to be well-informed of local and international best practices in the banking business.

- Employers' Federation of Ceylon; (EFC)
- Credit Information Bureau; (CRIB)
- 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;
- 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.

Currently the Bank maintains relationships with over 500 global correspondent banks which include some of the world's largest financial institutions.

The Bank's commitment to loyal relationships with its business partners is evidenced by the length of association it has had with its correspondent banks.

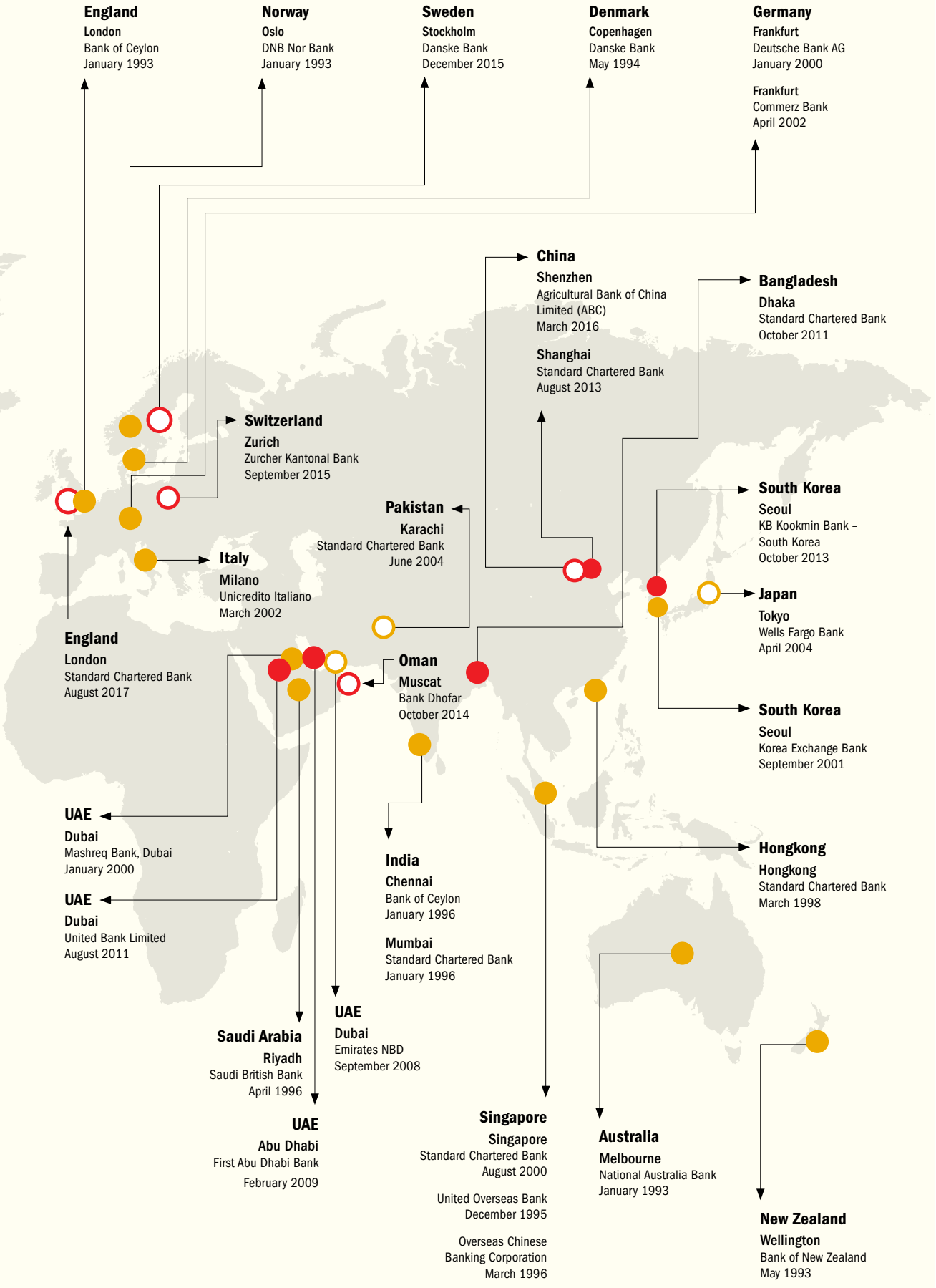
- Relationship more than 15 years
- Relationship between 10-15 years
- Relationship between 5-10 years
- Relationship less than 5 years

CLOSE CONNECTIVITY

The following banks visited Seylan Bank during the year to strengthen the relationships:

RAK Bank, UAE
 Commerzbank, Germany
 UBAF, France
 DNB NOR Bank, Norway
 Wells Fargo, New York
 DBS Bank, Singapore
 Abu Dhabi Commercial Bank, UAE
 Landes Bank, Germany
 Commercial Bank of Qatar, Qatar
 Emirates Bank, UAE
 Commercial Bank of Dubai
 Mashreq Bank, UAE
 Helaba Bank, Germany
 Zucher Kantonal Bank, Switzerland
 Doha Bank, Qatar
 OCBC, Singapore
 Caixa Bank, Spain
 Habib American Bank, New York
 Bank Dhofar, Sultanate of Oman
 HDFC, India
 Abu Dhabi Islamic Bank, UAE
 Habib Bank AG Zurich, UAE





Transparency and ethical conduct in daily interactions with stakeholders is paramount. Our values demand that these tenets are embedded in the culture of the organisation and practised in every aspect of work



SHARING MUTUAL BENEFITS

Complementing the mutually beneficial business relationships with Seylan Bank, the following banks invited the Bank's staff, for seminars conducted by them during the year:

- "Trade Finance Programme (TFP)" – conducted by The Asian Development Bank
- Seminar on Global Payments and Compliance Trends – conducted by Wells Fargo, New York.
- Correspondent Banking Compliance Forum for Banks – organised by Standard Chartered Bank, Colombo
- Annual Bankers' conference designed for International Division and Treasury of the Banks which was held in Goa, India by ICICI Bank.

- Knowledge Sharing Session – Importance of D & B Ratings and Interpreting a Business Information – conducted by Dun & Bradstreet South Asia Middle East Ltd.

NEW RELATIONSHIPS

Seylan Bank entered into new relationships with the following correspondents, expanding and strengthening the Bank's global networking channels:

- Al Ahli Bank of Kuwait, UAE
- Commercial Bank of Dubai, UAE
- Banco Privado Atlantico – Portugal
- Oriental Bank of Commerce, India
- Muslim Commercial Bank, UAE

CREDIT LINES

New interbank limits were established with the following banks:

- Bank of New Zealand, New Zealand
- ICICI Bank, India
- Al Ahli Bank of Kuwait, UAE
- National Bank of Fujairah – UAE

ETHICAL PRACTICES

Overseeing the Bank's compliance with ethical practices is of paramount importance.

To this end, 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.

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 and to 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 function



responsibly, improving the lives of their workers, their communities, and the environment in which they operate.

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 when dealing with the Bank:

- Ensure that policies are in place to eliminate fraud, malpractices, money laundering etc. which tarnish the image of the Bank.
- Have reasonable and lawful payment policies with their own suppliers and subcontractors
- Support fair trade and ethical sourcing practices in respect of goods or services provided to the Bank.
- Respect human rights and strive to enhance the lives of the people and communities in which they operate.
- Provide workers with a safe and clean working environment, meeting the legal requirements of the country.
- Provide their employees appropriate training to enable them to perform their jobs safely.
- Adhere to standard labour practices such as, fair pay and working conditions, including meeting minimum wage requirements and compensation.
- Ensure compliance with relevant laws relating to forced, involuntary labour, child labour and discrimination.

- Ensure Company products, services or facilities are not used for human trafficking and/or labour exploitation.

PROMOTE LOCALLY-BASED SUPPLIERS

The Bank, in its efforts to create short-term employment opportunities for outsiders, engages external resources to supplement the efforts of its own employees. 90% of the suppliers are from local communities. As part of the process, the Bank makes concerted efforts to select local suppliers/service providers in the vicinity of its branches, to satisfy these needs. As an example, stationery, a major consumable of the Bank, is purchased from local suppliers. The Bank's inventory management, janitorial service, security service, mail room service and catering services are also outsourced to specialists in these respective local areas.

COST OF SERVICES OBTAINED LOCALLY IN THE VICINITY OF BRANCHES

	2018 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Tea and coffee	39.22	35.07	33.65
Subsidised lunch for staff	60.70	59.16	57.07
Supply of foliage/maintenance of fish tanks	3.35	4.12	4.87
Janitorial and courier services	92.82	84.35	71.83
Repair and maintenance	19.21	25.77	36.33
Drinking water	11.28	10.85	11.38
Newspapers	3.46	3.31	3.21
Total	230.04	222.63	218.34

FUTURE OUTLOOK

- The Bank will continue to work with many types of suppliers and will not discriminate on the basis of religion, race, colour or gender in the selection of its business partners.
- It will also continue to encourage its suppliers to work towards improving the living standards of its employees, their communities and the environment.
- The Bank will strive to strengthen the networking and strategic alliances, build long-lasting strategic relationships with all its suppliers and business partners, in order to maintain a sustainable business.
- It will also promote ethical business practices amongst its suppliers and business partners and endeavour to reduce any adverse impact on the environment within which they operate.

Responsible Corporate Citizenship

As a responsible corporate citizen, we apply ethics and social responsibility to every part of our business model, designed to foster economically fulfilling livelihoods amongst the wider community and the environment

RESPONSIBLE ENGAGEMENTS WITH SOCIETY

COMMUNITY POLICY

“The 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 approaches their role in social responsibility by directing their efforts to spread economic prosperity amongst the widest possible extent of the community. All initiatives in this regard are undertaken with the active participation of the staff of Bank’s island-wide network of branches. The projects are structured to deliver value to communities and promote economic development.

BRIDGING GAPS THROUGH EDUCATION

The Bank is of the view that education is the foundation of sustainable economic development amongst people. Societies

comprising literate and skilled individuals are able to make use of challenging opportunities as they arise and are more likely to succeed.

“SEYLAN PAHASARA”

The “Seylan *Pahasara*” library project was launched on 1 March 2013 in a bid to provide students an environment which promotes reading and IT literacy.

183 libraries (by the end of 2018) have been established throughout the country. The Bank has identified schools which have sub-standard libraries and large student populations, with the intention of enhancing infrastructure and raising standards of those libraries. In addition, the Bank donates computers to support interactive learning.

Completed libraries are revisited on rotational basis to replenish books, review the benefits that flow through to the students and nurture our relationships with the schools. Bank has completed 31 such revisits as at date.

Coupled with the opening of libraries, is a tree planting exercise to make the students aware of the need to take care of the environment they live in, as they grow up.

The Bank spent LKR 11.98 Mn. on “Seylan *Pahasara*” in 2018.

SCRIP DIVIDEND FUNDS ON EDUCATION CENTRIC CHARITY

As decided by the shareholders of Seylan Bank to utilise sales proceeds of scrip dividends on pure charity, we revived a library with an extension made to the existing library building at an underprivileged school namely “Dippitiya Dwithika Kanishta Vidyalaya” off Katugastota. Equipping the library with e-learning tool, two computers were donated together with books and stationery to support education.

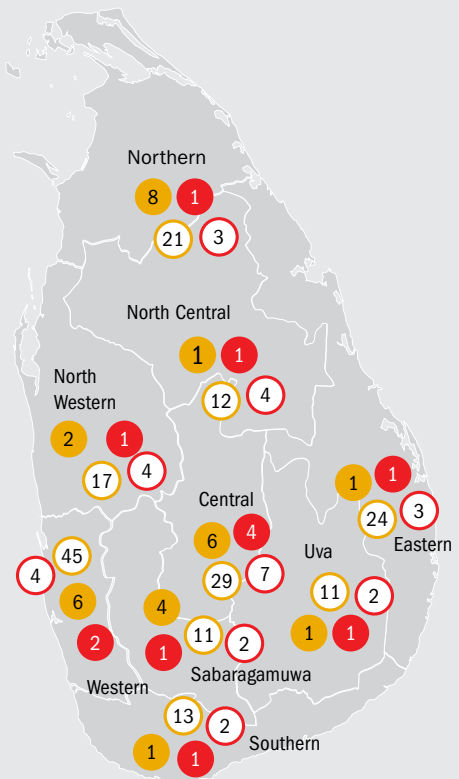
“SIPSAL PUBUDUWA” INCLUSIVE CSR WITH COLLABORATION

Joining hands with “Derana TV – *Manusath Derana*” Seylan Bank carried out the “*Sipsal Pubuduwa*” project helping out 12 underprivileged schools in remote villages. Developing educational infrastructure, Bank donated computers, televisions, public address systems, sports and musical instruments, furniture, books and stationery, gifting every student an opportunity for gaining a unique learning experience, with a total investment of LKR 1.2 Mn.



ISLAND-WIDE DISTRIBUTION OF NEW LIBRARIES AND REVISITS COMPLETED DURING THE YEAR AND TOTAL DISTRIBUTION

- New libraries during 2018
- Revisits during 2018
- Total library projects since inception
- Total revisits since inception



SUPPORT FOR SCHOLARSHIP PROGRAMMES

The Bank continues to offer support to Grade 5 students by providing them access to modulated seminars to build their confidence. The staff at branches, helps moderate the programme passionately.

The Bank offered two scholarships to encourage two little hearts who have got through the Grade 5 Scholarship Exam with national colours.



“TIKIRI POLA” WITH PRE-SCHOOLS

The Bank promotes the savings habit amongst children by visiting schools throughout the island. They meet with primary students, their parents and teachers to make them aware of the characteristics of banking. “Tikiri Pola” is fast gaining a reputation as a programme that teaches financial literacy in an interactive manner.

EMPOWERING RURAL VILLAGE THROUGH EDUCATION - DEVAMULLA

The development of microsocial segments through education has been a focus of Seylan Bank. Focusing on development from health aspects to educational pursuits since 2011, the Bank has been consistently supporting the students with books and stationery needed for entire year and also fulfilling other infrastructural needs of the school. We donated them the books and stationery in 2018 too, marking our steadfast eighth consecutive year of addressing grass roots level CSR.



BANK'S STAFF VOLUNTEER FOR THE THIRD CONSECUTIVE YEAR TO PROVIDE RELIEF TO PATIENTS AND THEIR DEPENDANTS AT “APEKSHA” HOSPITAL

For the third consecutive year, Seylan Bank staff visited the “Apeksha” Hospital, Maharagama, during the period of “Vesak” commemoration, to donate medicine and equipment for needy patients. Accompanied by a group of oriental musicians, the Bank's staff visited each ward, singing “Bakthi Gee” and were also generous enough to fulfil a few other hospital needs.



COMMUNITY SPONSORSHIPS

The Bank provides various sponsorships ranging from influencing quality of education to sports and recreation to religious affairs and community-related aspects.

Our educational and community related sponsorships are as follows:

Focus	Amount of sponsorship LKR Mn.	Impact	Type of engagement
Sports	2.74	Healthy mind in a healthy body grooming positive and productive human capital	P
Events of professionals	1.95	Potential collaboration for knowledge sharing and capacity building	P, C
Cultural and community entertainments	0.97	Building inclusive and resilient communities	P
Social and other events of old pupils	0.88	Educational support being provided by capitalising networking opportunities of past pupils	P, C
Entrepreneurship development	0.79	Fostering financial literacy for well-informed and balanced decision-making together with technical know-how and business acumen	P, C
Educational pursuits	0.84	Reinforce employability and build up of future productive intellectual property	P, C
Religious observances and related encounters	0.84	Promoting peace and harmony through religious activities	P
Events of differently abled and special needs	0.12	Empowering the needy and helping them to be independent contributory participants of sustainable development roadmap	P
Health and safety pursuits of community	0.52	Boost productive life expectancy and health and safety	P
Total	9.65		

P - Pro bono C - Commercial

ENGAGEMENT WITH KIDS AND THEIR BANKING



Seylan Bank continues to conduct a Kids' Banking Day regularly to influence saving habits among children. The Bank also conducts many other events during October, especially for kids. In the process, the Bank promotes a learning culture by engaging them in Art and Essay competitions and city tours, and entertains them with kids movies and carnivals. We have conducted over 130 events through our island-wide branch network during year 2018.

TEAM PASSION

The Bank promotes a culture to celebrate special events and business achievements with related stakeholders including the community comprising special needs children and adults, orphans, elders, and other marginalised people.

Branch anniversary day celebrations are conducted to show appreciation to our stakeholders for their engagement with the Bank. Simultaneously, we carry out various charitable activities where staff participation is encouraged. Such activities involve blood donation campaigns, alms giving at orphanages and, homes for elders and include 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 flexible terms and conditions on its housing loans to low and middle-income consumers. Artisans, in the housing industry, have also been encouraged to save and enhance their employment opportunities. The distribution of housing loans granted over the years is reflected in the following table:

	2018	2017
Number of housing loans granted	856	719
Amount granted (LKR Mn.)	4,934	3,157

PROMOTING ENTREPRENEURSHIP THROUGH SME



A separate SME Unit and SME hubs were formed to pay special attention to development of entrepreneurs with the inclusion of women and youth in the exercise.

BANKING TO BE INCLUSIVE WITH SENIOR CITIZENS AND SPECIAL NEED CUSTOMERS

Senior citizens and special need customers are welcomed with due respect and preferential service is provided, to facilitate their banking experience to be a pleasant one resolving operational issues and financial literacy gaps if any.

BANKING AT STUDENT SAVINGS CENTRES

The Bank has set up 98 student savings centres throughout the island to enable students manage these centres as business units and gain hands on experience. Book keeping and running the centres with proper internal controls are included in the process.

Student representatives are appointed from time to time with the assistance of school authorities to be the focal points of the Bank and with a view to maintain an ethical and responsible relationship. This would train them to be conversant with formal working environment together with know-how on financial literacy.

BEING A RESPONSIBLE CORPORATE CITIZEN

The Bank's operations are structured to comply with all statutory and legal requirements while safeguarding the interests of every stakeholder.

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 examining audit trails and the training programmes as listed below are used to mitigate the risks
Actions taken in response to incidents of corruption	Stringent controls, internal audit procedures and staff disciplinary codes in all operations are enforced
Participation in public policy development	At the invitation of the Government, the Bank presents proposals and engages in formulating new policies for consideration and inclusion in the Government Budget and tax laws, Sustainable Banking Initiative of SLBA, Accounting standards particularly implementation of SLFRS 9
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, all business of the Bank was conducted at arm's-length. The Bank has a policy on Politically exposed persons and maintain strict adherence to same
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. Truth in advertising is followed when displaying banners, conducting sales campaigns, road shows and using public address systems. No legal action was taken against the Bank for 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/or 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

Internal/External – Local/Foreign	2018		2017	
	Number of programmes	Number of participants	Number of programmes	Number of participants
General banking practices	183	1,958	226	2,763
Anti-money laundering/ KYC	*	1,223	14	312
System security	*	1,182	4	105
Accounting/auditing/compliance and specialised areas	37	1,103	19	217

* Online training platform developed herein

KYC – Know your customer/customer due diligence

PROMOTE FINANCIAL INCLUSIVENESS AND FOSTER INVESTMENTS

Seylan Bank understands and caters to the diverse capacity levels of the community by delivering appropriate solutions. The Bank is committed to guiding them in their businesses, to enable them to actively contribute to the country's GDP while creating employment opportunities in their respective fields and also enhancing their standard of living.

FINANCE ARM ON NEEDY SECTORS THROUGH REFINANCE AND SUBSIDY SCHEMES

Paying considerable attention to foster independency of micro socio-units in the economy, following refinance loans and subsidy schemes were granted to households, micro, small and medium scale entrepreneurs including women and youth, empowering them to be vital factors of sustainable development roadmap while ensuring that their

well informed and balanced decisions are made with due attention paid on addressing financial literacy gaps if any.

It is well tailored to suit their investment, consumption and behavioural patterns evident through cash flows being in harness with primary and secondary repayment capacities worked through relaxed and simplified terms and conditions and security documentation akin.

Refinance scheme	Donor	Eligible sector(s)	Loans granted in 2018		Loans granted in 2017	
			Number of loans	Amount (LKR Mn.)	Number of loans	Amount (LKR Mn.)
Small and Medium Line of Credit (SMELoC)	Asian Development Bank	SME	37	524.87	46	540.98
“Saubagya” prosperity loan scheme	GOSL	SME	14	116.70	10	145.64
Small and Micro Industry Leader and Entrepreneur promotion project (SMILE III)	Japan Bank for International Cooperation (JBIC)	SME	34	146.84	37	247.70
“Kapruka Ayojana”	GOSL/CBSL	Coconut cultivation	8	8.27	26	16.47
“Athwela”	GOSL/CBSL	Economic activities affected by natural disasters	20	9.95	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
New comprehensive rural credit scheme	GOSL/CBSL	Agriculture	733	118.86	1,404	298.77
Rooftop Solar Power Generation Project	Asian Development Bank	Solar power generation	1	2.50	-	-

INTEREST SUBSIDY SCHEME

Interest subsidy scheme	Donor	Eligible sector(s)	Loans granted in 2018	
			Number of loans	Amount (LKR Mn.)
Green Loan Scheme	GOSL	Small scale tourist guest houses/ homestay projects	1	2.50
"Jaya Isura"	GOSL	SME	42	698.53
"Ran Aswenna"	GOSL	Cultivation/ Agriculture processing	2	202.39
"Rivi Bala Savi"	GOSL	Residential solar power generation	4	1.40

GOSL – Government of Sri Lanka CBSL – Central Bank of Sri Lanka

FUTURE OUTLOOK

- Using Environment and Social Risk Management System (ESMS) to manage actual and potential social impact
- Capacity building and sensitising staff on social laws and/or regulations
- Streamlining supply chain assessments to be more socially inclusive and compliant manner
- Encouraging the SME sector to be more inclusive
- Streamlining SME hub operations to reach rural communities more effectively
- Fostering education, together with 250 libraries and other education-related engagements
- Promoting IT literacy through the "Seylan Pahasara" library project

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 by screening its banking products and services to mitigate any direct and indirect adverse impacts, while exploring opportunities to enhance the positive influences on the environment.

The Bank continues to monitor its efficiency in the usage of resources such as electricity, paper etc. Given the nature of its business however, the adverse effects of the Bank's operations on the environment are limited. Regardless, Seylan Bank has adopted many initiatives such as optimising energy efficiency and minimising paper wastage, to reduce its carbon footprint while carrying out green initiatives to enhance the positive impact.

Our strategic intents are leaned and powered towards progressive transitioning to a green financial intermediation with prudent practices for negating or mitigating negative environmental impact if any inherent within our business deeds while actively exerting efforts towards combating climate change. Following notions from international standards, we explore opportunities that promote feasible positive impact together with far-reaching

stakeholder engagements. We envisage sustainability to be a common dialogue besides risks and resilience where individual and collective roles bridge every gap as a moral duty towards present and future generations.

We deliberate for environment around as the most dynamic resource store that facilitates every stakeholder engagement to gain grounds and grow safely and resiliently that helps creating long term economic value as anticipated in a mutually beneficial and sustainable way.

Details of the Bank's industry wise credit exposure are given in Note 24.1.3 to the Financial Statements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PERFORMANCE

As opposed to short-termism but engraining sustainability considerations into our business propositions, Seylan Bank's idealistic approach to prioritise Environmental, Social and Governance (ESG) performance is influenced by the Board sustainability subcommittee as attuned to meet expectations of stakeholders in accordance with the Bank's overall strategic plan of 2017-2020.

Being vigilant and active to mitigate detrimental impact happening to people and the environment around if any, Bank's strategic approaches and business engagements with people and environment go hand in hand with precautionary principles as a business case integrated with ethical corporate governance conformed with laws, rules and regulations followed through local and international industry best practices.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT SYSTEM (ESMS)

Having formulated in conformity with local laws, rules and regulations, International Finance Corporation (IFC) performance standards, International Labour Organization (ILO) core labour standards pertaining to environmental and social due diligence, establishment of Seylan Bank's ESMS is now progressing with an effective pilot run being operated prior to rolling it out across the Bank.

We are working closely with backstopping support of a consultant and the pilot run is carried forward with our business divisions with a view to finding out what are the bottlenecks and limiting factors confronted in the screening process, assessing environmental and social risks pertaining to loans and advances, risk categorisation based on European Bank for Reconstruction and Development (EBRD) guidelines together with the experience and learning gathered over local context of specific projects and industries. The Bank focuses on reflective feedbacks of the pilot study and does gap analysis to initiate rational action closing identified gaps if any, through capacity building, training and development channels in a prudent manner.

With the guidance of Bank's Board Credit Committee and Integrated Board Risk Management Committee, leaning outcome of the pilot run will be made use to merge the ESMS policy with the Bank's credit policy, lending guidelines, integrated risk management policy and other relevant policies.

While continuous capacity building and reviews take place in time to sensitise human capital having delegated respective control points across the hierarchy with necessary empowerment, we plan to operationalise the ESMS prudently in a transformative manner followed by a time-bound action plan.

SUSTAINABLE PARTNERSHIPS

Seylan Bank is optimistic and actively engages in focus driven partnerships that avail sustainable results for the stakeholders in an inclusive manner.

Envisioning real ground kick off and coherence without being confined to mere terms and conditions on papers, we value and nurture our partnerships in promoting transformative transitioning towards green banking and green financing that carry national mandates on par with the sustainable development roadmap of the Central Bank.

We are a signatory to 11 sustainable banking principles crafted by Sri Lanka Banks' Association sustainable Banking Initiative (SLBA SBI) which is also recognised by the CBSL as a path forward for the sustainable finance journey in Sri Lanka, where an environmentally and socially agile level playing field would be developed across the industry of banking.

“Environmental stewardship refers to responsible use and protection of the natural environment through conservation and sustainable practices”

**- Aldo Leopold
(1887-1949)**

TOWARDS PAPERLESS BUSINESS OPERATIONS

The Bank communicates for the most part, electronically and prints only material and legal agreements and disclosures. In addition, the following initiatives have now become normal business practices:

- Communication throughout the organisation is via email and e-circulars
- Use of the e-Board Paper System to view Board Papers through an iPad
- Use of e-Media to conduct training. 6,452 staff have participated in it covering 25,808 hours
- Biometric attendance records
- Electronic credit evaluations on “Loan Originating System” with a significant number of papers saved
- Investment in digitalizing operations
- 29 CDMs installed eliminating paper based customer deposits

SPARING USE OF ENERGY

Bank's main source of energy consumed is national grid electricity. We have consumed 8.52 Mn. kWh total units of electricity and been able to save 248,734 units managing with the business expansion took place.

Other non-renewable fossil fuel energy used by the Bank are gasoline, diesel, and lubricant oil on generators and motor vehicles used for transporting office equipment and commuting staff. Details on consumption of energy for the year 2018 are given on the page 79.

However the Bank has not sold out energy and the Bank totally purchases energy from outside.

Energy use outside the Bank takes in the form of gasoline due to hiring of vehicles to manage upstream transportation and distribution and employee commuting. We have travelled 586,183km during the year.

PAPER RECYCLING AND CARBON FOOTPRINT

63,892kg of paper was recycled in 2018 earning carbon credit measure of 12,778 kg.

WATER MANAGEMENT

Despite the Bank's operation not incurring substantial water usage, it has

implemented cost saving measures in addition to creating awareness amongst employees.

Volume of water withdrawal by source:

	Year and water usage in units (U) per employee (e) [U/e]					
	2018	U/e	2017	U/e	2016	U/e
Surface or ground water*, Municipal public or private water	77,226	23	77,685	24	79,335	25

* Use of surface or ground water is minimal.

WASTE DISPOSAL AND E-WASTE MANAGEMENT

During the year, the Bank continued to implement the following waste management practices:

- Complied with Government's waste management initiative for segregating waste into organic and non-organic with everybody's active participation
- During the year the Bank donated 438 cannibalised and refurbished old version computers to 94 destitute schools and educational institutes on request
- Reduced usage of toners and print cartridges consequent to expansion of paperless practices

BIODIVERSITY CONSERVATION

We have no operational sites owned leased or managed in protected areas of biodiversity and our direct activities, products and services leave no room for damages to ecosystem. International Union for Conservation and Nature (IUCN) red list species or national conservation list species with habitat in our operational areas are unreported. However our indirect involvement herein through financing activity is screened via the ESMS which is in the process of development.

RENEWABLE ENERGY

The following projects were financed by us having been able to derive positive results as tabulated below:

Type of the power project	Number of loans	Total amount granted LKR Mn.	Production capacity MW.	Total green power generation MWh/ positive impact to the environment
Hydro	2	310	2	5,174
Solar	3	254	1	*

* Under construction

Refinance and other subsidy renewable energy loans are listed on pages 73 and 74.

EMISSION MANAGEMENT AND TRANSPORT

GHG emissions, as part of the Bank's business, arise through the use of vehicles. The Transport Division of the Bank is responsible for taking the following steps to mitigate their adverse impact.

- Training provided to drivers on how to minimise accidents, e-friendly driving techniques and also emotional stability and grooming for positive attitude build-up
- Vehicles are allowed to be hired from locality to minimise travel distance
- e-training platforms are used to reduce staff travel on training programmes
- Hybrid vehicles are hired for inevitable long distance travel and short distance ones are insisted by electrical vehicles wherever possible
- Inter-branch document deliveries are managed through a courier service in an efficient manner
- Repairing and servicing of vehicles based on the fuel efficiency readings and running conditions

SUPPLIER ENVIRONMENTAL ASSESSMENT




The Bank insists that large scale suppliers adhere to local environmental laws, rules and regulations and adopt social best practices. It does not monitor the environmental impact of suppliers where the impact is insignificant and remote to both the stakeholder and the Bank.

ENVIRONMENTAL GRIEVANCE MECHANISM

There were no environmental grievances arising from the Bank's operations during the year.

FUTURE OUTLOOK

- Continue to promote a culture that encourages voluntary and passionate engagement with collaborative environmental initiatives
- Pursue the current practice of creating awareness of the importance of the environment, both internally and externally
- Implement the ESMS transformatively
- Work closer with SLBA SBI for creating a level playing field on environmental and social impact assessments and due diligence
- Online tracking system for the transport division with a view to improve operational efficiency and reduce energy waste
- Re-exporting of e-waste with a recognised consigner
- Promote paperless processes
- Drive cost saving initiatives to control extra usage of energy

Stakeholder group	Indicator of performance	Achievement					Indicator	
		2018	2017	2016	2015	2014		
Community 	Contribution to community projects (LKR Mn.)	8.81	11.19	17.50	7.80	0.93	GRI 413-1	
	Contribution to education-related pursuits (LKR Mn.)	14.70	15.14	16.70	11.06	6.70	GRI 413-1	
	Number of loans granted under "Seylan Scholar"	24	37	63	61	71	GRI 413-1	
	Number of SME loans	26,161	15,990	14,605	13,367	9,859	GRI 413-1	
	Value of SME loans (LKR Mn.)	93,882	84,647	80,917	54,021	42,993	GRI 413-1	
Suppliers 	Purchases from locally-based suppliers (LKR Mn.)	230.04	222.63	218.34	186.19	173.98	GRI 204-1	
	Number of complaints received from bidders and suppliers	Nil	Nil	Nil	Nil	Nil	GRI 206-1	
Environment 	Electricity consumed (units kWh '000)	8,518	8,767	9,165	9,362	9,342	GRI 302-1	
	Electricity consumption - units per employee (kWh)	2,547	2,741	2,896	3,034	3,170	GRI 302-1	
	Water consumption - units	77,226	77,685	79,335	81,828	77,344	GRI 303-1	
	Water consumption - units per employee	23	24	25	27	26	GRI 303-1	
	Generator diesel consumption (litres)	63,447	63,210	71,674	62,251	73,211	GRI 302-1	
	Vehicle petrol consumption (litres)	16,860	18,359	17,386	21,382	30,977	GRI 302-1	
	Vehicle diesel consumption (litres)	56,442	45,962	42,990	35,400	44,878	GRI 302-1	
	Lubricant consumption (litres)	480	680	685	481	1,261	GRI 302-1	
	Total business travels (km)	586,183	511,523	396,625	545,002	363,134	GRI 305-1	
	Number of A4 paper purchased - packets	24,215	23,725	23,498	21,000	19,441	NA	
	Weight of A4 paper (kg)	290,580	284,700	281,976	252,000	233,292	NA	
	A4 packets usage per business unit	130	130	141	132	124	NA	
	Waste paper recycled (kg)	63,892	141,624	102,237	107,055	86,280	GRI 306-2	
	Savings from recycled papers							
	Trees (No.)	1,086	2,408	1,738	1,820	1,466	GRI 306-2	
	Water (litres)	2,030,488	4,500,811	3,249,092	3,402,208	2,741,978	GRI 306-2	
Electricity (kWh)	250,568	566,496	408,948	428,220	345,421	GRI 306-2		
Oil (litres)	112,130	248,550	179,426	187,882	151,421	GRI 306-2		
Land fill (cubic meters)	192	425	306	321	259	GRI 306-2		
Carbon footprint (kg)	12,778	28,325	20,447	21,411	17,256	GRI 306-2		
Government and Government institutions	Income tax (LKR Mn.)	1,477	2,226	1,723	1,946	1,571	GRI 201-1	
	Value Added Tax and Nation Building Tax on financial services (LKR Mn.)	2,113 *	1,895	1,349	1,256	1,203	GRI 201-1	
	Total tax (VAT/NBT and income tax % of PBT)	53 *	48	43	46	47	GRI 201-1	

* Includes Debt Repayment Levy for 2018

Board of Directors

The governance framework at the Bank is designed to encourage the efficient use of resources while demanding accountability for the stewardship therefor



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 debentures of the Bank, their directorships and substantial shareholding in other entities are given in the Report of the Board of Directors on the State of Affairs of the Company published on pages 126 to 136 of this Annual Report.

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

QUALIFICATIONS	APPOINTED TO THE BOARD	MEMBERSHIP ON BOARD SUBCOMMITTEES	SKILLS AND EXPERIENCE
FCIB (UK), LLB, Hubert H Humphrey Fellow	29 May 2015 as a Non-Executive Director and was appointed as the Chairman on 9 May 2016.	Board Nomination Committee, Board Governance and Compliance Committee, Board Integrated Risk Management Committee and Board Marketing and Product Development Committee	Senior Banker with long years of banking experience and was lastly serving as the Managing Director/ Chief Executive Officer of Commercial Bank of Ceylon PLC. Mr Dias has served on the Boards of Commercial Development Company PLC, Commercial Insurance Brokers (Pvt) Ltd, Lanka Clear (Pvt) Limited, Lanka Financial Services Bureau Limited and was a Council Member of the Employers' Federation of Ceylon. Mr Dias presently serves on the boards of many corporates.

2. Mr W D Kapila Jayawardena – Non-Executive Director/Deputy Chairman

QUALIFICATIONS	APPOINTED TO THE BOARD	MEMBERSHIP ON BOARD SUBCOMMITTEES	SKILLS AND EXPERIENCE
MBA (Financial Management), FIB, Associate, ICEA (London).	1 August 2013 as a Non-Executive Director and appointed as the Deputy Chairman on 10 September 2018	Board Audit Committee and Board Nomination Committee	Former CEO and Country Head of Citibank NA Sri Lanka. Experience in Investment Banking, Banking Operations, Audit, Relationship Management, Corporate Finance, Corporate Banking and Treasury Management. Chairman of the Sri Lanka Banks Association (SLBA) in 2003/04. Served as the President of the American Chamber of Commerce in Sri Lanka in 2006/07 and appointed to the Financial Sector Reforms Committee (FSRC). Formerly a member of the National Council of Economic Development (NCED) and a Board Member of the United States – Sri Lanka Fulbright Commission. Joined LOLC in 2007 as the Group Managing Director/CEO and heads the business and operating functions of LOLC Group. Member of the main Board of the LOLC Group.



3. Ms M Coralie Pietersz – Independent Director/Senior Director

QUALIFICATIONS	APPOINTED TO THE BOARD	MEMBERSHIP ON BOARD SUBCOMMITTEES	SKILLS AND EXPERIENCE
BSc (Hons) Physics (University of Sussex), MBA (Heriot-Watt University, Edinburgh), ACA (ICA England and Wales), FCA (ICASL)	23 September 2013 as an Independent Director and was designated as the Senior Director with effect from 9 May 2016.	Board Audit Committee*, 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* <i>(*Chairperson)</i>	Ms Coralie Pietersz 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 Ltd, Hapugastenna Plantations PLC and Udupussellawa Plantations PLC. Prior to joining the Finlays Group, Ms Pietersz was the Group Chief Financial Officer of Richard Peiris & Co PLC. Ms Pietersz 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 P Ariyaratne – Director/Chief Executive Officer

QUALIFICATIONS	APPOINTED TO THE BOARD	MEMBERSHIP ON BOARD SUBCOMMITTEES	SKILLS AND EXPERIENCE
BSc (Honours – First Class), University of Colombo	16 February 2015 as an Executive Director	Board Credit Committee, Board Sustainability Committee, Board Marketing and Product Development Committee, Board Integrated Risk Management Committee and Board Strategic Plan Committee	Mr Kapila Ariyaratne joined the Bank in March 2011 as the General Manager/Chief Executive Officer and was appointed to the Board as an Executive Director on 16 February 2015. He has over 30 years of banking 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 member of the present Governing Board of the Institute of Bankers of Sri Lanka. Mr Ariyaratne is also a Trustee of the Seylan Bank Employees' Gratuity Trust Fund and Seylan Bank Employees' Provident Fund.

5. Mr P L S Kumar Perera – Independent Director

QUALIFICATIONS	APPOINTED TO THE BOARD	MEMBERSHIP ON BOARD SUBCOMMITTEES	SKILLS AND EXPERIENCE
BSc (Special) (Mathematics) University of Colombo, MSc in Statistics, University of Ibadan, MA (Economics and Econometrics), University of Manchester	23 September 2013 as an Independent Director	Board Audit Committee, Board Governance and Compliance Committee*, Board Nomination Committee, Related Party Transactions Review Committee* and Board Integrated Risk Management Committee <i>(*Chairman)</i>	Over 22 years of executive and managerial experience in the Central Bank of Sri Lanka and 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 also held the position of Deputy Director, Marketing of the Agricultural Development Authority prior to his posting at the Central Bank of Sri Lanka. 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. Serves as a Consultant in reputed private sector organisations.

6. Mr S Viran Corea – Non-Executive Director

QUALIFICATIONS	APPOINTED TO THE BOARD	MEMBERSHIP ON BOARD SUBCOMMITTEES	SKILLS AND EXPERIENCE
Bachelor-of-Laws (LL.B) and Master-of-Laws (LL.M) (University of Colombo), Attorney-at-Law	14 May 2015 as a Non-Executive Director.	Board Credit Committee, Board Governance and Compliance Committee, Board Sustainability Committee, Related Party Transactions Review Committee and Board Human Resources and Remuneration Committee	<p>Counsel and Legal Consultant with over 21 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.</p> <p>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.</p>

7. Mr Anushka S Wijesinha – Independent Director

QUALIFICATIONS	APPOINTED TO THE BOARD	MEMBERSHIP ON BOARD SUBCOMMITTEES	SKILLS AND EXPERIENCE
MA Economics and Development (University of Leeds Business School, UK), BSc (Hons) Economics (University College London, UK)	1 December 2016 as an Independent Director.	Board Credit Committee*, Related Party Transactions Review Committee, Board Strategic Plan Committee*, Board Marketing and Product Development Committee and Board Nomination Committee <i>(*Chairman)</i>	<p>He is an economist with experience across Asia. He has published many national and international publications, focusing on innovation, private sector development and international economics. Currently an Advisor to the Ministry of Development Strategies and International Trade. Formerly, Chief Economist and Head of the Economic Intelligence Unit of the Ceylon Chamber of Commerce and a Consultant to the World Bank, International Trade Centre, ADB, UNDP, GIZ and UNESCAP, Research Officer to the Presidential Commission on Taxation and Assistant Director of Economic Affairs at the Government Peace Secretariat.</p> <p>He is an Asia Development Fellow of the Korea Development Institute and headed the Industry, Competitiveness and Regulatory Policy Unit of the Institute of Policy Studies.</p> <p>Mr Wijesinha serves as a board member of the Sri Lanka Export Development Board and is a council member of the World Economic Forum's Global Council on Innovation Ecosystems.</p>

8. Mrs Sandya K Salgado – Independent Director

QUALIFICATIONS	APPOINTED TO THE BOARD	MEMBERSHIP ON BOARD SUBCOMMITTEES	SKILLS AND EXPERIENCE
<p>MBA (International) Edith Cowan University, Perth, Australia BA (English, French, Linguistics) University of Kelaniya, Sri Lanka, MCIM-UK</p>	<p>1 December 2016 as an Independent Director.</p>	<p>Board Human Resources & Remuneration Committee, Board Sustainability Committee*, Board Marketing and Product Development Committee* and Board Strategic Plan Committee <i>(*Chairperson)</i></p>	<p>Mrs Sandya Salgado is a specialist in Strategic Communications and Sustainable Business Management with over three decades of experience, including in the financial and banking sectors. She was trained at Johns Hopkins University in Baltimore USA, in Strategic Communications and was the CEO of Ogilvy Action for nearly twelve years.</p> <p>Mrs Salgado was awarded the title “Marketer of the Year” in 2001 and “Zonta Woman of Achievement” in 2006. She was the Senior Communications Specialist at the World Bank, managing the image and reputation of the World Bank and World Bank funded projects in Sri Lanka and Maldives until 2015.</p> <p>Mrs Salgado is the Managing Partner of her consulting company Good Karma, promoting sustainable business management. She is a member of the board of management of the Lakshman Kadirgamar Institute for International Relations and Strategic Studies, a Director of Lebara Foundation, council member of the University of Sri Jayewardenepura and Secretary of the International Film Producers’ Association of Sri Lanka.</p>

9. Mr D M D Krishan Thilakaratne – Non-Executive Director

QUALIFICATIONS	APPOINTED TO THE BOARD	MEMBERSHIP ON BOARD SUBCOMMITTEES	SKILLS AND EXPERIENCE
<p>AIB (Sri Lanka)</p>	<p>1 October 2018 as an Non-Executive Director</p>	<p>Board Credit Committee and Board Sustainability Committee</p>	<p>Mr Krishan Thilakaratne is the Director/CEO of Commercial Leasing and Finance PLC and a member of the senior management team of LOLC PLC.</p> <p>Mr Thilakaratne is a Director of Prasac Microfinance Limited Cambodia and Commercial Insurance Brokers (Pvt) Ltd, Director of the Credit Information Bureau of Sri Lanka (CRIB). He was formerly Chairman of the Finance Houses Association of Sri Lanka and an Alternate Director to Mr I C Nanayakkara until his resignation on 31 August 2018.</p> <p>Mr Thilakaratne is an Associate member of the Institute of Bankers of Sri Lanka (AIB) and followed a Strategic Leadership Training Programme in Microfinance at the Harvard Business School, USA. He has over 25 years of experience in management, credit, channel management, marketing, factoring, portfolio management and Islamic finance.</p>

10. Mr D R Abeysuriya – Independent Director

QUALIFICATIONS	APPOINTED TO THE BOARD	MEMBERSHIP ON BOARD SUBCOMMITTEES	SKILLS AND EXPERIENCE
FCMA, CGMA, MBA (Monash University, Australia), CFA	17 October 2018 as an Independent Director	Board Audit Committee, Board Integrated Risk Management Committee*, Board Human Resources and Remuneration Committee and Board Strategic Plan Committee. <i>(*Chairman)</i>	<p>Mr D R Abeysuriya is a Group Director of Candor Group, Director of HNB Assurance PLC, and Bio Foods (Pvt) Ltd and was responsible for private equity investments for Eagle Proprietary Investments Limited, a 200 Mn. Dollar PE Fund.</p> <p>Formerly, he was the CEO, Candor Group of Companies owned by National Industries Group (NIG), Kuwait, the Head of Strategic Business Development at Hayleys PLC, Managing Director of Amba Research (Pvt) Ltd., Managing Director of Fitch Ratings Lanka Ltd., Director of Sri Lanka Insurance Corporation Ltd and Chairman of its Investment Committee, a Commission Member of the Securities and Exchange Commission of Sri Lanka, a member of Board Risk Oversight Committee of the Central Bank of Sri Lanka, President of several finance and IT associations, the Head of Corporate Finance at JP Morgan, a permanent member of the Financial Sector Reforms Committee (FSRC), a Prime Ministerial Task Force appointment and consultant for the World Bank and the Government of Sri Lanka.</p> <p>Mr Abeysuriya was named as “Lifetime Achievement” award laureate by CFA Institute, USA in 2017 for his outstanding work and dedication to the investment management profession.</p>

11. Mr R D Tissera – Non-Executive Director (Alternate Director to Mr W D K Jayawardena)

QUALIFICATIONS	APPOINTED TO THE BOARD	MEMBERSHIP ON BOARD SUBCOMMITTEES	SKILLS AND EXPERIENCE
MCIM, UK	18 April 2018 as an Alternate Director to Mr W D K Jayawardena	-	<p>Mr R D Tissera, a Development Finance Specialist with a post graduate degree in Marketing (CIM, UK) and strategic leadership training at Harvard Business School, is the founder CEO of LOLC Micro Credit Ltd (LOMC), Sri Lanka's largest microfinance provider and a Director of LOLC Finance PLC.</p> <p>Mr Tissera was a Director of LOLC Cambodia PLC, LOLC Myanmar Microfinance Ltd, Pak Oman Microfinance Bank Ltd, Pakistan.</p> <p>Mr Tissera was the only microfinance provider in Sri Lanka to receive certification for Client Protection Principals from the SMART Campaign USA and to also become a case study at INSEAD Business School.</p>

Senior Management Team

DIRECTOR/CEO AND DEPUTY GENERAL MANAGERS

1. Mr Kapila P Ariyaratne – Director/Chief Executive Officer

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

BSc (Honours – First class),
University of Colombo

31 Years

2. Mr Chitral De Silva – Deputy General Manager – Branches

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Executive Diploma in Business Administration –
University of Colombo

36 Years

3. Mr Tilan Wijeyesekera – Deputy General Manager – Retail Banking

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

FSLIM, Practicing Marketer (SL), Post graduate Diploma in Marketing, Postgraduate Diploma in Business Administration, CIMA – Part qualified

22 Years

4. Mr Ramesh Jayasekara – Deputy General Manager – Corporate Banking

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Associate of Institute of Chartered Accountants of SL, Bachelor of Commerce (First Class) – University of Colombo, Associate of Chartered Institute of Marketing United Kingdom, Associate of Institute of Certified Management Accountants

21 Years



5. Mr Delvin Pereira – Deputy General Manager – Branch Credit

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Masters in Business Administration – University of Western Sydney, Certified Management Accountant – Australia

33 Years

6. Mr Jayantha Amarasinghe – Deputy General Manager – Human Resources

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Master in Business Administration – Buckinghamshire New University, Bachelor of Law (LLB), Attorney-at-Law, National Diploma in Human Resources Management – Institute of Personnel Management Sri Lanka (Inc), Postgraduate Diploma in Management – Sri Lanka Institute of Marketing, Postgraduate Diploma in International Relations – Bandaranaike Centre for International Studies – Sri Lanka

26 Years

7. Ms Champika Dodanwela – Chief Financial Officer

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Master in Business Administration in 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 Brookes UK, BSc Management University of Sri Jayawardenapura.

29 Years in Banking (Finance)

8. Mr Harsha Wanigatunga – Chief Information Officer

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Bachelor of Science – Computer System Design – University of Houston – Clear Lake, Master of Science – Computer Engineering – University of Houston – Clear Lake

24 years

9. Mr Malik Wickramanayake – Deputy General Manager – Operations

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

BA in Business & Admin Studies – Lewis & Clark College, Portland, Oregon, USA

24 Years

10. Mr Shanaka Perera – Deputy General Manager – Treasury

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Master in Business Administration – PIM – University of Sri Jayewardanapura, FIB – Institute of Bankers of Sri Lanka, PG. Ex. Diploma in Bank Management – Institute of Bankers Sri Lanka, CMA – ICMA, Australia, ACI DC – ACIFMA, Diploma in Treasury and Risk Management – IBSL, CIMA (Part qualified) – CIMA, UK

28 Years



Senior Management Team

ASSISTANT GENERAL MANAGERS

1. Ms Rohini Weerakkody – Assistant General Manager – Operations

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Associate of the Institute of Bankers – Sri Lanka, Diploma in Bank Management – IBSL, Master of Business Administration – University of Huddersfield U.K., ICA International Diploma in Compliance (Graduate) – International Compliance Association U.K.

35 Years

2. Mr Wasantha Karunaratne Assistant General Manager – Services

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Diploma in Purchasing and Materials Management

28 Years

4. Ms Kaushalya Hatch – Head Of Legal

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Attorney-at-Law

32 Years

3. Mr Kapila Rathnayaka – Assistant General Manager – Premises And Maintenance Department

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

BSC – Engineering Honours MBA (PIM USJ) Chartered Engineer Corporate Member of Institution of Engineers

17 Years

5. Mr Aruna Fernando – Acting Chief Risk Officer

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Master of Business Administration – PIM, University of Sri Jayewardanapura, AIB (Sri Lanka), Postgraduate level Certificate Course in Modern Commercial Banking – PIM, University of Sri Jayewardanapura, Diploma in Advanced English for Administrative and Academic Purposes – University of Colombo, Special Course Credited by GARP on Bank Risk Management, Euromoney Learning Solutions

31 Years

6. Mr Varuna Koggalage – Head Of Audit

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Associate member of The Institute of Chartered Accountants – Sri Lanka (ICASL)

23 Years



7. Mr Nirmal Costa – Assistant General Manager – Finance

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Fellow member of the Institute of Chartered Accountants of Sri Lanka (FCA), Chartered Financial Analyst (CFA), Certified Financial Risk Manager (FRM)

20 Years

8. Mr Nuwan Jayawardane – Assistant General Manager – It Infrastructure

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

BSc in Computer Engineering – New Jersey Institute of Technology, MBA in finance – University of Colombo ITIL V3 Foundation, Project Management Professional COBIT® Foundation

24 Years

9. Mrs Sharon Fonseka – Assistant General Manager – Metro I And Corporate Credit Branches

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Associate member of the Institute of Bankers of Sri Lanka

30 Years

10. Ms Nisha Najumudeen – Company Secretary

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Associate Member of the Institute of Chartered Secretaries and Administrators (UK), Associate Member of the Institute of Chartered Corporate Secretaries of Sri Lanka

29 Years

11. Mr Eranga Lankatilaka – Assistant General Manager – Recoveries

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Associate member of the Institute of Bankers of Sri Lanka, Master of Business Administration – Rajarata University of Sri Lanka

28 Years

12. Mr Chandana Gurusinghe – Assistant General Manager – Branches

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Certificate IV in Business (Frontline Management) – Department of Further Education, Employment Science and Technology – Government of South Australia

34 Years

13. Mr Ranil Dissanayake – Assistant General Manager – Branches

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Associate member of the Institute of Bankers of Sri Lanka, Certificate course in project Finance – Institute of Bankers of Sri Lanka

28 Years

15. Mr. Sunil Jayawardana – Head Of Credit Monitoring

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

BSc Business Administration (Special) of University of Sri Jayewardanepura, Master in Business Studies of University of Colombo – 2012

31 Years

14. Ms Dilani Sooriyaarachchi – Head Of Compliance

QUALIFICATIONS AND YEARS OF OVERALL EXPERIENCE:

Attorney-at-Law of the Supreme Court of Sri Lanka, Fellow member of the International Compliance Association of UK [FICA], Associate member of the Institute of Bankers of Sri Lanka [AIB], Postgraduate Diploma in Business Management granted by the University of Colombo, Post Attorney Diploma in Banking and Insurance Law granted by the Advanced Legal Education Centre attached to the Sri Lanka Law College, Diploma in Credit Management granted by the Institute of Credit Management of Sri Lanka.

21 Years



Corporate Governance

CHAIRMAN'S STATEMENT

Dear Stakeholders,

Seylan Bank PLC has continued its focus during the year 2018 too on influencing, assessing and monitoring good corporate culture with a view to strengthening it throughout the organisation. Your Bank has fostered transparency and disclosure in all material matters related to its financial situation, performance, ownership and governance since it recognises the importance of adopting a sound corporate governance structure as a fundamental part of its culture and business practices. The Bank's key objective is to meet its shareholders' expectations, protect the interests of its depositors, and continuously earn the trust of all its stakeholders, through guaranteeing the successful achievement of its long-term strategy and objectives.

The Bank follows the Corporate Governance principles set out in the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended), in the Code of Best Practice on Corporate Governance (2017) published by the Institute of Chartered Accountants of Sri Lanka and in the Corporate Governance Rules of the Colombo Stock Exchange. The Bank also ensures compliance with the other regulations and its own Articles of Association. The Bank's Corporate Governance Framework, Code of Ethics, Code of Conduct as well as its various policies and charters approved by the Board have incorporated the requirements, directions and principles set out in these documents.

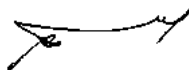
The Board Governance and Compliance Committee and the Board of Directors reviewed the Bank's Corporate Governance Report and were satisfied with the level of compliance under the aforementioned Governance Directions and Codes

in respect of the year ended 31 December 2018. Being a licensed commercial bank regulated by the Banking Act No. 30 of 1988 (as amended), it was imperative that as required under Section 3 (1) (xvi) of the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) statements and disclosures of compliance are published in this Annual Report. Accordingly, the Bank's Corporate Governance Report presenting its extent of Compliance with the said Banking Act Directions is published on pages 92 to 109 of this Annual Report. The Report was reviewed and agreed upon by the External Auditors of the Bank.

I confirm that to the best of my knowledge, there were no material violations of any of the provisions of the applicable laws and regulations, the Banking Act Directions issued by the Central Bank of Sri Lanka, and the Codes of Conduct and Ethics of the Bank.

The Board of Directors will continue to stress the importance of good governance across the Bank towards sustaining its credibility and corporate reputation whilst protecting the shareholders' rights, providing further assurance to investors, strengthening the stakeholders' trust in its related activities and improving the overall competitive positioning.

Yours sincerely,

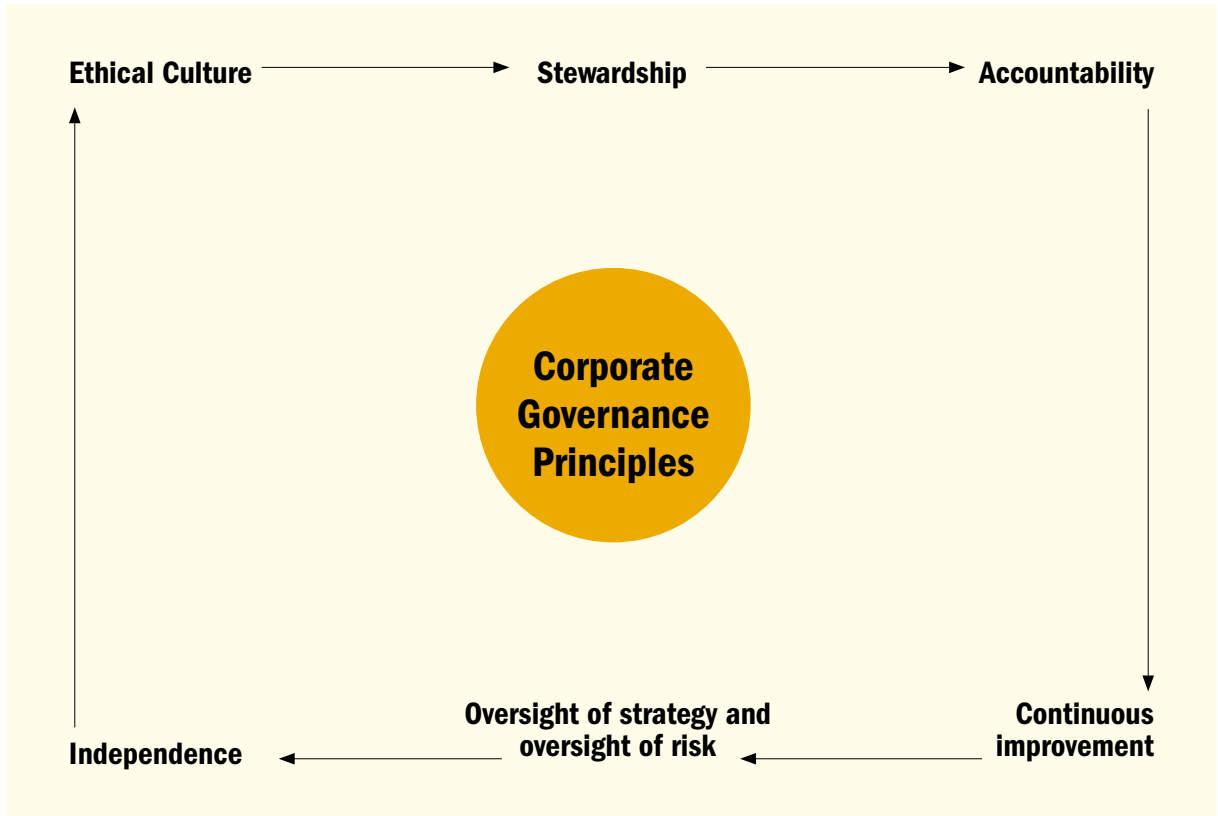


W M R S Dias
Chairman

18 February 2019
Colombo

CORPORATE GOVERNANCE FRAMEWORK

Seylan Bank's approach to corporate governance is guided by the following core principles which are defined and explained in the Bank's Corporate Governance Framework.



The Corporate Governance Framework of the Bank and the governance related policies, charters and codes of conduct and ethics have been formulated taking into consideration the following principles, directions and guidelines set out by the regulatory bodies in addition to its own Articles of Association.

- Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks of Sri Lanka (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka (hereinafter referred to as the Banking Act Directions on Corporate Governance)
- Provisions of the Companies Act No.7 of 2007
- The Rules of the Colombo Stock Exchange (as amended)
- Other applicable regulations, directions and recommended best practices, mainly the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities & Exchange Commission of Sri Lanka.

THE ARTICLES OF ASSOCIATION OF THE BANK

The Bank is governed by the provisions contained in the Articles of Association (hereinafter referred to as "the Articles") which has adopted the relevant provisions of the Companies Act No. 7 of 2007, the Banking Act No. 30 of 1988 (as amended) and its Directions as applicable and relevant.

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).

CODES OF BUSINESS CONDUCT AND ETHICS

Two separate Board approved codes of conduct 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.

CORPORATE GOVERNANCE REPORT

This Corporate Governance Report reports the extent to which the Bank has applied and practices the governance principles and directions under the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks of Sri Lanka (as amended) in compliance with Section 3 (1) (xvi) of the said Direction.

COMPLIANCE WITH BANKING ACT DIRECTION NO. 11 OF 2007 ON CORPORATE GOVERNANCE (AS AMENDED)

The Bank's level of 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 9 subsections.

- 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
- Transitional and other General Provisions – Section 3 (9) 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 –
Compliance Status (✓)

Level of compliance

3 (1)

Responsibilities of the Board

3 (1) (i) (✓)

Ensuring the safety and soundness of the Bank

The Board has taken relevant measures to ensure the safety and stability of the Bank during the year under review including the following:

3 (1) (i) (a)

Strategic Objectives and Corporate Values – The Bank's strategic objectives and corporate values as defined in its Vision and Mission statements have been communicated to the staff. Staff members from different segments of the Bank were also invited to 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 corporate values of the Bank are set out in the Bank's Code of Business Conduct and Ethics for Directors which are 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.

3 (1) (i) (b) and (c)

Overall Business Strategy, Risk Policies and Prudent Risk Management with Measurable Goals – The Board approved its four-year Strategic Plan for the period 2017-2020 in the beginning of the year, 2017. The Board Strategic Plan Committee which was constituted as a subcommittee of the Board periodically reviewed the progress on implementation of the Strategic Plan as per the set objectives and targets and provided necessary guidance to the Management.

The Board has vested the responsibility for formulating and implementing prudent risk management policies to the Board Integrated Risk Management Committee. The Committee 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 assessment and risk appetite of the Bank. The Board approved risk policies and procedures 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.

CBSL Direction – Compliance Status (✓)	Level of compliance
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. This Policy was reviewed and approved during the year. • 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.</p>
3 (1) (i) (f)	<p>Identification of Key Management Personnel (KMPs) – Directors and identified members of the Senior Management are deemed as KMPs 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, provisions of the Sri Lanka Accounting Standards (LKAS/SLFRS) and the Rules of the Colombo Stock Exchange. 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 in this regard.</p>
3 (1) (i) (g)	<p>Defining areas of authority and key responsibilities – The key responsibilities of Key Management Personnel (KMPs) are defined in their job responsibilities, whilst the Directors derive their responsibilities primarily from the regulations and directions mentioned in 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 KMPs is also in place.</p>
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 (KMPs) by minute extracts requiring appropriate follow up actions.</p> <p>Reports and proposals from KMPs 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 the Board’s oversight on the affairs of the Bank by KMPs. The CEO and KMPs heading different areas of authority meet 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/achieved.</p>
3 (1) (i) (i)	<p>Effectiveness of the Board’s own governance practices –</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>The self-evaluated reports were collated and summarised by the Company Secretary and submitted to the Board Governance and Compliance Committee for review and any recommendations and thereafter to the Board for an overall assessment and decisions where appropriate.</p>

CBSL Direction - Compliance Status (✓)	Level of compliance
	<p>The Board of Directors also submitted reports of their self-assessments reporting on their extent of contribution to the Board and to the Board Subcommittees they represent. The self-evaluation reports of the Board Subcommittees too were submitted to the Board for review and concurrence.</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. The Succession Plan was periodically reviewed by the Board Nomination Committee and was reviewed and agreed upon at the meetings held in the 2nd half of the year, 2018.</p>
3 (1) (i) (k)	<p>Regular meetings with Key Management Personnel – Please refer section 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 (CEO) of the Bank. The functions and responsibilities of the Chairman are as defined section 3 (5) of the Banking Act Directions and stated in the Corporate Governance Framework of the Bank. These are distinct from the role and responsibilities of the CEO which is defined in his Job Description approved by the Board. 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 five special Board Meetings were held at different times of the year to consider important issues with the active participation of Directors.</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 regular monthly Board meetings that ensued. The details of the meetings held and the Directors attendance are disclosed under 3 (1) (vi) below.</p>
3 (1) (iv) (✓)	<p>Agenda – Since adequate notice of the Board meetings were issued, Directors had the opportunity to include matters and/or proposals relating to business of the Bank and other relevant matters to be considered at Board Meetings. Further, at the Board meetings too, the Directors propose and collectively agree on matters to be included in the Agenda of future Board Meetings and/or Board Subcommittee meetings. Relevant information was provided by management on request by the Board prior to the Board meetings to support the Agenda.</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. Urgent Board papers were included on an exceptional basis with the consent of the Board members present.</p>
3 (1) (vi) (✓)	<p>Attendance – At every Board Meeting, the Company Secretary apprises the Directors the record of their attendance at Board Meetings held in the period of twelve months immediately preceding the regular Board meeting. During the year, Directors attended more than two-thirds of the meetings they were eligible to attend and no Director was absent from three consecutive meetings as given in the table below.</p>

CBSL Direction -
Compliance Status (✓)

Level of compliance

Director	Status*	Meetings eligible to attend	Meetings attended	As a Percentage (%)
Mr W M R S Dias	NED/Chairman	17	17	100.00
Mr I C Nanayakkara (Resigned as at 31 August 2018)	NED/(former Deputy Chairman)	9	9**	100.00
Mr W D K Jayawardena	NED/Deputy Chairman	17	15**	88.23
Ms M C Pietersz	IND/Senior Director	17	17	100.00
Mr K P Ariyaratne	EXD/CEO	17	16	94.12
Rear Admiral B A J G Peiris (Retired as at 7 January 2018)	IND	0	0	-
Mr S P S Ranatunga	IND	17	15	88.23
Mr P L S K Perera	IND	17	17	100.00
Mr S V Corea	NED	17	15	88.23
Mr A S Wijesinha	IND	16	12	75.00
Ms S K Salgado	IND	17	15	88.23
Mr D M D K Thilakaratne (Appointed on 1 October 2018)	NED	6	6	100.00
Mr D R Abeyesuriya (Appointed on 17 October 2018)	IND	6	6	100.00

* NED - Non-Executive; IND - Independent Non-Executive; EXD - Executive

** - Includes three meetings attended by each of the respective Alternate Directors

3 (1) (vii) (✓)

Company Secretary – Ms 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 in conformance with Section 43 of the Banking Act No. 30 of 1988 (as amended). The Board approved the 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 and guides the Board 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) and
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 decisions taken at the meetings. Minutes of Board Meetings are prepared by the Company Secretary and circulated to the Directors upon being reviewed by the Chairman, so that they may peruse same and confirm or record any discrepancy for rectification or amendment at the Board Meeting that follows. The Minute Book is maintained by the Company Secretary and is available for inspection by 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 or the 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 – 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.

CBSL Direction -
Compliance Status (✓)

Level of compliance

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 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 Capital Augmentation Plan prepared based on Basel III and taking into consideration the Bank's Strategic Plan 2017/2020, SLFRS 9 impact, projected growth patterns, assumption on any debenture issues, dividend payout, etc., was tabled to the Board in May 2018. The Bank's total capital ratio was in compliance with the prudential limit as at 31 December 2018 confirming that it was adequately capitalised.

3 (1) (xvi) (✓)

Annual Corporate Governance Report – This report serves to meet the requirement of this provision requiring the publishing of the Annual Corporate Governance Report in compliance with Direction three of the Banking Act Directions on Corporate Governance.

3 (1) (xvii) (✓)

Scheme of Self-assessment – Directors submitted their annual self-assessment reports in respect of the year 2018. The records were shared at the Board meeting held in February 2019 and filed for record by the Company Secretary.

3 (2)

The Board's Composition

3 (2) (i) and
(ii) (✓)

Board Composition during the year, 2018 and Period of Service of Directors – The number of Directors on the Board was not less than seven and not more than thirteen throughout the year, 2018 as described in the table below. The Board comprised 11 members as at 31 December 2018.

Director	Status*	Date of appointment
Mr W M R S Dias	NED/Chairman	29 May 2015
Mr I C Nanayakkara (Resigned as at 31 August 2018)	NED/ (former Deputy Chairman)	24 November 2009
Mr W D K Jayawardena	NED/Deputy Chairman	1 August 2013
Ms M C Pietersz	IND/Senior Director	23 September 2013
Mr K P Ariyaratne	EXD/Chief Executive Officer	16 February 2015
Rear Admiral B A J G Peiris (Retired as at 7 January 2018)	IND	8 January 2009
Mr S P S Ranatunga**	IND	12 January 2010
Mr P L S K Perera	IND	23 September 2013
Mr S V Corea	NED	14 May 2015
Mr A S Wijesinha	IND	1 December 2016
Ms S K Salgado	IND	1 December 2016
Mr D M D K Thilakaratne	NED	1 October 2018
Mr D R Abeyesuriya	IND	17 October 2018

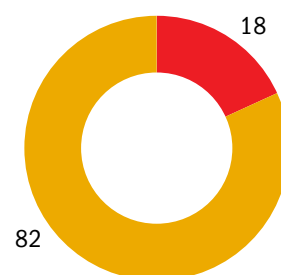
* NED – Non-Executive; IND – Independent Non-Executive; EXD – Executive

** Having served a period of nine years, Independent Non-Executive Director, Mr S P S Ranatunga retired from the Board as at 11 January 2019 in terms of the Banking Act Direction.

BOARD GENDER COMPOSITION AS AT 31 DECEMBER 2018

%

Female Male

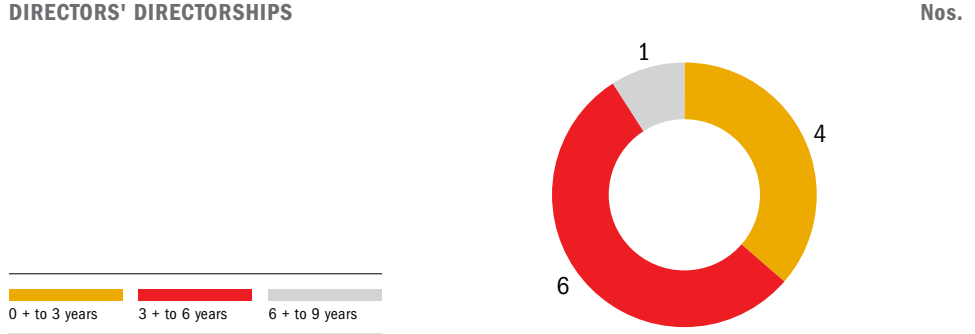


CBSL Direction – Compliance Status (✓) Level of compliance

3 (2) (ii) (✓) **Period of Service of a Director other than a Director who holds the position of CEO** – The tenure of directorships of the Non-Executive Directors who were on Board during the year did not exceed nine years as at 31 December 2018 or as at the dates of their resignation or retirement.

Length of the tenure of the ten Non-Executive Directors on the Board as at 31 December 2018 was as follows:

SERVICE PERIOD OF NON-EXECUTIVE DIRECTORS' DIRECTORSHIPS



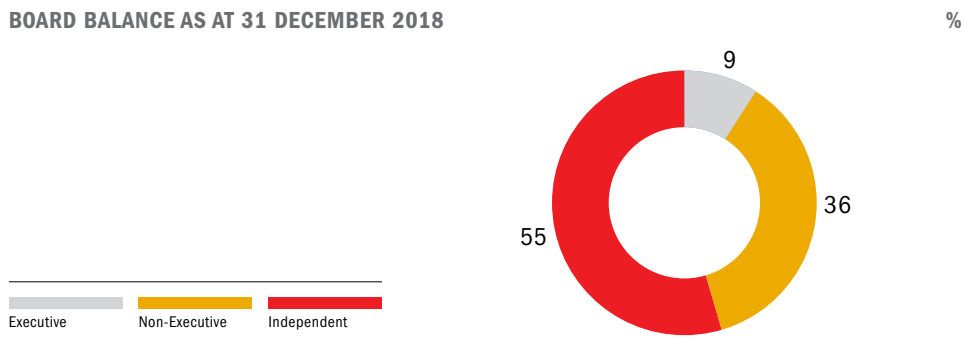
3 (2) (iii) (✓) **Appointment of Executive Directors** – Director/Chief Executive Officer, Mr K P Ariyaratne was the only Executive Director on the Board during the year. Hence, the number of Executive Directors did not exceed one third of the number of Directors on the Board.

3 (2) (iv) (✓) **Independent Directors** – The number of Independent Non-Executive Directors throughout the year 2018 fluctuated between five and 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.

Determination of Independence

The Board determined 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 was obtained from the Non-Executive Directors who joined the Board during the year, soon after their appointments. Mr D R Abeyesuriya was deemed independent and Mr D M D K Thilakaratne was deemed Non-Independent.

BOARD BALANCE AS AT 31 DECEMBER 2018



3 (2) (v) (✓) **Alternate Directors** – Two Alternate Directors were appointed during the year as alternates to two of the Non-Executive (Non-Independent) Directors, Mr I C Nanayakkara and Mr W D K Jayawardena. The two Alternate Directors, Mr D M D K Thilakaratne and Mr R D Tissera were deemed Non-Executive and Non-Independent. The Alternate Directorship of one Director, namely Mr D M D K Thilakaratne ceased upon the resignation of Mr I C Nanayakkara.

CBSL Direction -
Compliance Status (✓)

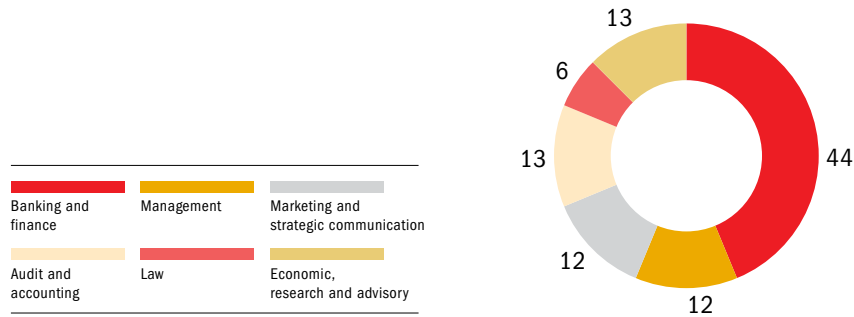
Level of compliance

3 (2) (vi) (✓)

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, accounting and auditing, law, marketing, economics, research, strategic communications, etc. Their expertise brought in independent judgement on issues relating to strategy, performance and resources. The profiles of all Directors of the Board as at the date of this Annual Report appear on pages 81 to 85 of this Annual Report.

**AREAS OF EXPERTISE OF
THE BOARD MEMBERS**

%



3 (2) (vii) (✓)

Non-Executive Directors composition at Board Meetings – Meetings of the Board held during the year were duly constituted with the required quorum and majority represented by Non-Executive Directors.

3 (2) (viii) (✓)

Identification of status of Directors in corporate communications – The Independent Non-executive Directors have been expressly identified in all corporate communications including in the Annual Reports. Directors who were designated with identified positions, e.g., Chairman, Deputy Chairman, Senior Director and Chief Executive Officer have also been identified in such communications accordingly.

3 (2) (ix) (✓)

Procedure for Appointment of Directors – Board approved Policy Governing Directors' Appointment is in place 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 Directors nominated to the Board.

3 (2) (x) (✓)

Election of Directors appointed to fill casual vacancy on the Board – In terms of Article 89 of the Articles of Association, a Director who is appointed after an Annual General Meeting (AGM) of the Bank is subject to election by the shareholders at the AGM that follows his or her appointment. Proposals in terms of the said Articles for the election of Non-Executive Director, Mr D M D K Thilakarathne and Mr D R Abeyseriya who were appointed to the Board in October 2018 have been included in the Agenda for the AGM to be held on 28 March 2019. No Directors were subject to election at the previous AGM held on 29 March 2018.

3 (2) (xi) (✓)

Resignation/Removal/Cessation of Directorship – Upon the Board accepting and/or recording the resignation or retirement of a Director it is informed to the regulatory authorities and shareholders (via announcements made to the Colombo Stock Exchange). Such announcements include statements that may be relevant to be brought to the information of the shareholders. The Bank made the relevant announcements upon the retirement of former Director, Rear admiral B A J G Peiris and upon the resignation of Mr I C Nanayakkara.

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. This is a requirement stipulated in the Policy Governing Directors' Appointments.

3 (3) (✓)

Criteria to assess the fitness and propriety of Directors

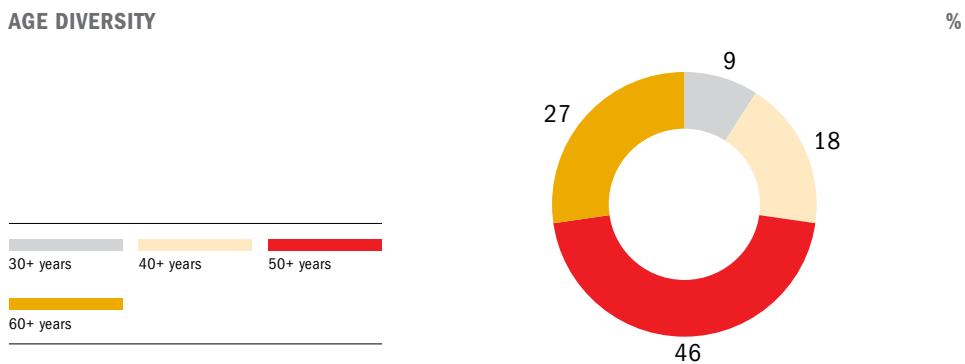
All appointments to the Board were made after obtaining approval of the Director, Bank Supervision, Central Bank of Sri Lanka in terms of Section 42 of the Banking Act No. 30 of 1988 (as amended). Declarations and Affidavits in terms of the said Section were obtained from the persons nominated to the 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 annually, prior to the Annual General Meeting for perusal and approval.

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.

CBSL Direction - Compliance Status (✓) Level of compliance

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.

AGE DIVERSITY



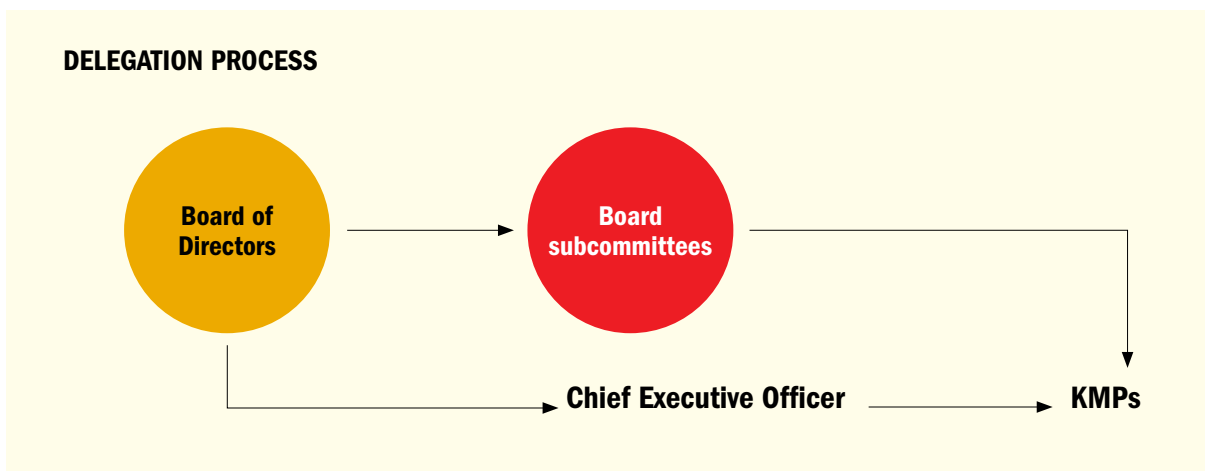
3 (3) (ii) (amended by Direction No. 3 of 2013) (✓) **Directorships in other companies/institutions** – No Director held directorships in more than 20 companies/entities/institutions inclusive of subsidiary of the Bank. Please refer Annexure to the Report of the Board of Directors for details (Pages 134 to 136) on directorships held by the Board members.

3 (4) **Management functions delegated by the Board of Directors**

3 (4) (i) **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 and to the Chief Executive Officer as appropriate.

3 (4) (ii)
3 (4) (iii)
(✓) 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.

New delegation processes or revisions to the existing delegation processes as proposed and recommended by the Director/CEO and the relevant 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.



CBSL Direction -
Compliance Status (✓)

Level of compliance

3 (5)

Chairman and the Chief Executive Officer

3 (5) (i) (✓)

Chairman and Chief Executive Officer – During the year 2018, Non-Executive Director, Mr W M R S Dias was the Chairman and Mr K P Ariyaratne who is also a member of the Board 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. He was determined as not "independent" since he was nominated to the Board by the Sri Lanka Insurance Corporation Ltd, a material shareholder of the Bank. 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 with a Board approved Terms of Reference.

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 (who is also a member of the Board) and also did not exist amongst the members on the Board, during the year 2018 other than in respect of the following:

- Directors, M/s I C Nanayakkara (resigned as at 31 August 2018), W D K Jayawardena and Mr D M D K Thilakaratne (appointed on 1 October 2018) were nominated to the Board by the Bank's material shareholders, Brown & Company PLC and LOLC Investments Ltd.
- Directors, M/s W M R S Dias and S V Corea were nominated to the Board by the Bank's material shareholder, Sri Lanka Insurance Corporation Ltd.

3 (5) (iv) to
3 (5) (x) (✓)

Chairman's Role – The Chairman's role can be described as follows:

- a. 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.
- b. 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 are circulated to the Directors at least seven days prior to the Meeting.
- c. Ensures that Directors, specially new Directors on the Board are duly briefed on issues arising at Board meetings.
- d. 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 interest of the Bank.
- e. 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.
- f. 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, Financial 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) (✓)

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.

CBSL Direction – Level of compliance
 Compliance Status (✓)

3 (6) Board Appointed Committees

3 (6) (i) (✓) **Subcommittees appointed by the Board** – The Board has established the four Subcommittees as required in these directions, one Committee as required by the Rules of the Colombo Stock Exchange whilst further five Subcommittees as presented below.



The Board appointed Subcommittees function within the Board approved Terms of Reference. The Company Secretary, Ms 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 the Board’s attention and/or decision were circulated to the Board by the Company Secretary.

DIRECTORS' ATTENDANCE AT BOARD SUBCOMMITTEE MEETINGS DURING THE YEAR 2018 –

Number of meetings attended of the number of meetings eligible to attend by each Director at each subcommittee meeting are as follows:

Director (NED – Non-Executive Director; IND – Independent 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, NED/Chairman		4 of 4		6 of 6		2 of 2		4 of 4		
Mr W D K Jayawardena, NED/Deputy Chairman	7 of 14			0 of 1						
Mr I C Nanayakkara, NED/(former Deputy Chairman (resigned as at 30 August 2018))			1 of 3	2 of 4	7 of 13		1 of 2			0 of 3
Ms M C Pietersz, IND/Senior Director	14 of 14	4 of 4	4 of 4	6 of 6				4 of 4	4 of 4	
Mr K P Ariyaratne, Director/CEO		4 of 4			19 of 21	1 of 2	3 of 3			3 of 4
Mr S P S Ranatunga, IND (retired as at 11 January 2019)	12 of 14	3 of 4	4 of 4	6 of 6		2 of 2				4 of 4
Mr P L S K Perera, IND	11 of 14	4 of 4		3 of 6				4 of 4	4 of 4	
Mr S V Corea, NED					5 of 8		3 of 3	4 of 4	4 of 4	
Mr A S Wijesinha, IND					17 of 21	2 of 2			4 of 4	3 of 4
Mrs S K Salgado, IND			4 of 4			2 of 2	3 of 3			3 of 4
Mr D M D K Thilakarathne, NED (appointed on 1 October 2018)					6 of 6		1 of 1			
Mr D R Abeysuriya, IND (appointed on 17 October 2018)	2 of 2	1 of 1	1 of 1							1 of 1

The Board Subcommittees were reconstituted during the year due to the changes in directorate, details of which have been included in the respective Reports of the Subcommittees which were approved by the Board of Directors. Refer the following pages for Reports of the Board Subcommittees for further information:

111 115 113 114 117 119 118 120 121 122

CBSL direction
Compliance Status (✓)

Level of compliance

3 (6) (ii)

Board Audit Committee

3 (6) (ii) (a)

3 (6) (ii) (b) (✓)

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 26 years senior level experience in finance, banking, accounting and audit.

The BAC comprised four Non-Executive Directors during major part of the year, 2018 three of whom were independent, namely, Ms M C Pietersz, Mr S P S Ranatunga and Mr P L S K Perera. The other member, Mr W D K Jayawardena was a Non-Independent Non-Executive Director. Independent Director, Mr D R Abeysuriya was appointed to the BAC in December 2018.

3 (6) (ii) (c)

3 (6) (ii) (d) (✓)

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 :

- The reappointment of M/s KPMG, Chartered Accountants as the Bank's External Auditors for audit services in compliance with the relevant regulations and guidelines. M/s KPMG were reappointed as the Auditors for the financial year 2018 by the shareholders at the Annual General Meeting held on 29 March 2018.
- The implementation of guidelines issued from time to time by the Central Bank of Sri Lanka.

CBSL direction Compliance Status (✓)	Level of compliance
	<ul style="list-style-type: none"> • The application of relevant accounting standards, including the requirements of the Sri Lanka Accounting Standards (SLFRS/LKAS) complying with the International Accounting Standards (IAS) and International Financing Reporting Standards (IFRS) in all material respects. The SLFRS/IFRS 9 which is effective 1 January 2018 was a key agenda at the BAC meetings during the year where detailed presentations were made by the Management and the Auditors and reviewed and discussed in-depth and appropriate recommendations/advice issued by the Committee. • The Audit and Non-Audit fees of the Auditors. • The incumbent Audit Partner was engaged for the audit of the Bank from the financial year ended 31 December 2014 to the financial year ended 31 December 2018 in line with the five year rotation requirement. The incumbent Audit Partner was not engaged in the Bank's audit prior to the said engagement. The Committee discussed the requirement for the rotation of the Audit Partner with effect from the ensuing financial year. • Representations 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.</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, 2018 at a meeting held with the Auditors in the last quarter of 2018. 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 2018 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 important issues and matters 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 2017 year-end audit and to present the Audit Plan of the 2018 year-end audit. The External Auditors also presented to the BAC and highlighted the key aspects on the new format of the External Auditors' report applicable from the financial period ended 31 December 2018.</p> <p>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 2017 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 2018 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 2018. 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>

CBSL direction Compliance Status (✓)	Level of compliance
3 (6) (ii) (j) II (✓)	Internal Audit Plan/Programme – The IAD carried out its responsibilities in-line with the approved Audit Plan of the Internal Audit for the year 2018. 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 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.
3 (6) (ii) (j) III (✓)	Appraisals/assessments of performance of Senior Staff of the Internal Audit – The BAC noted the performance appraisals of the senior staff of the Internal Audit Department. The KPIs for 2018 of the Head of Internal Audit was agreed by the BAC. An evaluation/appraisal of the Head of Internal Audit's performance was carried out by the Committee at its meeting held in the last quarter of 2018.
3 (6) (ii) (j) IV and V (✓)	Adequacy of human resources for Internal Audit function – The BAC reviewed the adequacy of the resources for the internal audit functions including the succession planning and arrangements for training and development in place. No senior staff member of the Internal Audit resigned during the year.
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 invited to the meetings when necessary to discuss and report on relevant audit issues and follow up actions needed on the audit findings. The BAC also met with 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 Terms of Reference of the BAC provides the BAC the authority to investigate into any matter within the scope of 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 fourteen meetings during the year with due notice. These included separate meetings for reviewing the Quarterly Financial Statements, meetings with the External Auditors and for the review of the SLFRS 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 111 of this Annual Report outlining the scope and activities of the BAC. The meetings and appropriate reference to the attendance of the members at the meetings held during the year are given under Section 3 (6) (i) of this Report.
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 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) (✓)	<p>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.</p> <p>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.</p>

CBSL direction Compliance Status (✓)	Level of compliance						
3 (6) (iii) (b) (✓)	Goals and Targets – The Key Performance Indicators (KPIs/goals and targets) of Director/CEO for the year 2018 were tabled and approved by the Board upon being recommended by the Committee. The KPIs for the Key Management Personnel were thereafter submitted to the meeting of the Committee that followed and agreed upon.						
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 2017 and determined the revision of remuneration and profit/performance based bonus in respect of 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.						
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 and the Board Nomination Committee has adopted a Board-approved Policy Governing Appointment of Directors for this purpose.						
3 (6) (iv) (b) (✓)	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. Non-Executive Director, Mr I C Nanayakkara, and Independent Directors, Mr S P S Ranatunga and Mr P L S K Perera were re-elected at the AGM held on 29 March 2018 by the shareholders in terms of Article 82 of the Articles of Association. Non-Executive Directors subject to re-election and re-elected by shareholders at the AGMs held during the last three years were as follows: <table border="1"> <tr> <td>2016</td> <td>Rear Admiral B A J G Peiris and Mr S P S Ranatunga</td> </tr> <tr> <td>2017</td> <td>Mr W D K Jayawardena and Ms M C Pietersz</td> </tr> <tr> <td>2018</td> <td>Mr I C Nanayakkara, Mr S P S Ranatunga and Mr P L S K Perera</td> </tr> </table>	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	2018	Mr I C Nanayakkara, Mr S P S Ranatunga and Mr P L S K Perera
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						
2018	Mr I C Nanayakkara, Mr S P S Ranatunga and Mr P L S K Perera						
	Re-election of Directors in 2019 <i>The BNC and the Board have recommended the proposals for the re-election of Non-Executive Directors, Mr W M R S Dias and Mr S V Corea, who are due to retire by rotation in terms of Article 82 at the AGM scheduled to be held on 28 March 2019. The proposals have been included in the Agenda for the AGM seeking shareholders' approval for their re-election.</i>						
3 (6) (iv) (c) (✓)	Criteria for eligibility – CEO and KMPs – The Committee reviews and agrees on the criteria for eligibility such as qualifications, experience and key attributes are considered for appointment or promotion to the position of CEO and KMPs. These are documented in the respective job descriptions of the CEO and the KMPs.						
3 (6) (iv) (d) (✓)	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 Key Management Personnel (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.						
3 (6) (iv) (e) (✓)	Succession Plan – The BNC considered and discussed matters relating to new expertise, succession arrangements for Directors, the CEO and for the Key Management Personnel (KMPs) at its Meetings held during the year.						
3 (6) (iv) (f) (✓)	Composition and Chairman of BNC – The BNC comprised minimum five Non-Executive Directors during the course of the year 2018, majority of the members were independent. The BNC was chaired by Independent Director, Mr S P S Ranatunga. The Director/CEO attended the meetings on invitation.						
3 (6) (v) (✓)	Board Integrated Risk Management Committee						
3 (6) (v) (a) (✓)	Composition of the Committee – During the year, 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.						

CBSL direction Compliance Status (✓)	Level of compliance
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. 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 BIRMC also reviewed the risk assessments of the Bank's 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 these Committees were 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 2018.</p>
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 to the Head of Human Resources and/or to the 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 if deemed appropriate for information and advice or instructions issued.</p>
3 (6) (v) (g) (✓)	<p>Risk Assessment Report to the Board – Risk Assessment Reports were submitted to the Board meetings that were held after the quarterly BIRMC meetings. Copies of the confirmed Minutes of the Committee and recommendations of the Committee were also submitted to the Board meeting that followed 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, designated as 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 on a monthly basis.</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. 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 (KMP); 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.</p>

CBSL direction Compliance Status (✓)	Level of compliance
3 (7) (iii) (✓)	<p>Favourable Treatment – The Bank did 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 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</p> <p>Credit Card limit granted to Independent Director, Mr D R Abeyseriya prior to him being appointed to the Board was reduced to the limits specified in the Banking Act Directions whilst credit facilities granted to Alternate Director, Mr R D Tissera prior to him being appointed to the Board was settled by him prior to 31 December 2018. Hence, there was no requirement to comply with the provision of security as required by the Monetary Board.</p>
3 (7) (vi) (✓)	<p>Accommodation to employees or related parties connected to the employees</p> <p>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>
3 (7) (vii) (✓)	<p>Prior approval of Monetary Board for Remittance of Accommodation</p> <p>There was no requirement to comply with the requirement of this section based on the comments made under Direction 3 (7) (v) and 3 (7) (vi) above.</p>
3 (8)	Disclosures
3 (8) (i) (✓)	<p>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 Sri Lanka Accounting Standards (LKAS/SLFRS). Annual Audited Financial Statements were published in the Annual Report while the Quarterly Financial Statements were published in the newspapers in all three languages.</p> <p>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 164 provides the relevant dates.</p>
3 (8) (ii) (a) (✓)	<p>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 page 165 confirm that the Financial Statements for the year ended 31 December 2018 published conforms to the rules and regulatory requirements.</p>
3 (8) (ii) (b) (✓)	<p>Directors’ Statement on Internal Control – The Statement on pages 123 and 124 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.</p>

CBSL direction
Compliance Status (✓)

Level of compliance

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 125 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.

Details	Section of the Annual Report	Page/s
Names, qualifications, expertise	Profile of the Directors	81 to 85
Fitness and Propriety	Report of the Board of Directors	126 to 136
Details on Directors interest in other entities	Annexure to the Report of the Board of Directors	134 to 136
Transactions with the Bank/ Related Party Transactions	Note 52 to the Financial Statements	252 to 257
Fees/Remuneration paid to Directors	Disclosure under Direction 3 (8) (ii) (f) below	108

3 (8) (ii) (e) (✓)

Total Net Accommodations to Related Parties

Accommodation granted to related parties is given in Note 52 to the Financial Statements.

The net accommodation as at 31 December 2018, 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.

Category of Related Party Transactions	Amount LKR Mn.	Percentage of regulatory capital
Directors, Key Management Personnel and their close relations (Transactions including credit card accommodations)	276.17	0.63
Subsidiary, Seylan Developments PLC	176.77	0.40
Material shareholders of the Bank and concerns in which a Director of the Bank or material shareholder has a substantial interest.	10,594.49 *	24.25
Other entities including common Directorship Entities	9,721.72 **	22.26

* Includes accommodations non-funded, undrawn facilities – LKR 4,524.13 Mn.

Excluding LKR 50 Mn. debenture investment held by Seylan Development PLC which is accounted in consolidated financial statements.

** Includes accommodations non-funded, undrawn facilities – LKR 1,472.47 Mn.

3 (8) (ii) (f) (✓)

Remuneration to Key Management Personnel (KMPs) and Transactions with KMPs and aggregate values of the transactions of the Bank with its KMPs

The aggregate remuneration paid to Key Management Personnel and transactions of the Bank with Key Management personnel during the year 2018 were as follows.

Remuneration/Transaction	Amount LKR Mn.
Remuneration to KMPs (including CEO)	325.69*
Directors' Fees for Non-Executive Directors	20.35
Loans and Advances (including Credit Card accommodations to KMPs and Non-Executive Directors)	276.17
Deposits of KMPs and Non-Executive Directors	350.44
Investments by KMPs and Non-Executive Directors – Other Investments (Liability)	33.22

* Includes cash/non cash benefits and post-employment benefits to Directors and KMPs.

3 (8) (ii) (g) (✓)

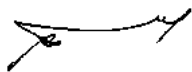
External Auditors Certification of the Compliance with Direction No. 11 of 2007 on Corporate Governance

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.

CBSL direction Compliance Status (✓)	Level of compliance
3 (8) (ii) (h) (✓)	<p>Compliance with prudential requirements, regulations, laws and internal controls Statement of Directors' Responsibility for Financial Reporting on page 165 and Directors' Statement on Internal Controls on pages 123 and 124 provide the extent of Bank's compliance in this regard.</p> <p>There were no material non-compliance of 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 directed to be disclosed to the public.</p>
3 (9)	Transitional and General Provisions
3 (9) (i)	The Board of Seylan Bank PLC was reconstituted on 30 December 2008 and the current Directors were appointed on or after the said date. Therefore, compliance with the transitional provisions stated in Section 3 (9) (i) of the Directions is not applicable to the Bank.

CONFIRMATION

On behalf of the Board of Directors, we confirm that the findings of the "Factual Findings Report" dated 18 February 2019 issued by the Auditors, M/s 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 relation to the compliance with the Banking Act Direction No. 11 of 2007 (as amended), in this Annual Corporate Governance Report.



W M R S Dias
Chairman



Mrs N N Najumudeen
Company Secretary

18 February 2019
Colombo

RULES OF THE COLOMBO STOCK EXCHANGE (CSE) RELATING TO DISCLOSURE ON 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 (Pvt) Limited as amended or replaced from time to time.

In terms of Section 7.10(c) of the CSE Rules which states that where a listed entity is required by any law applicable to such listed entity to comply with rules on corporate governance promulgated under such law, such listed entity shall make disclosures of compliance with the corporate governance rules applicable to that sector. Seylan Bank PLC being a Licensed Commercial Bank (LCB) has disclosed its level of compliance under the Banking Act and Banking Act Directions No.11 of 2007 (as amended) on Corporate Governance for Licensed Commercial Banks of Sri Lanka in this report. The disclosures made include and affirm the Bank's compliance with the relevant sections under the Corporate Governance Rules of the CSE.

CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017, PUBLISHED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA (ICASL)

The Bank's comprehensive report on its compliance with the Banking Act Directions on Corporate Governance and other disclosures published in the other sections of the Annual Report 2018 adequately addresses the level of compliance with the principles of the Code of Best Practice on Corporate Governance 2017 published by the ICASL (Code of Best Practice). Therefore, a detailed report referring to individual sections of the said Code of Best Practice is not published and instead, relevant references to the disclosures required as per Schedule I of the Code of Best Practice are listed below:

REFERENCES TO DISCLOSURES MADE IN THIS ANNUAL REPORT IN TERMS OF SCHEDULE “I” OF THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017 PUBLISHED BY THE ICASL

Subject	Code of Best Practice Principle Reference	Reference to Section of the Annual Report/Remarks	Page Number
Chairman and CEO	A.2.1 and A.5.7	Corporate Governance (CG) Report – CBSL Direction No.3(5)	100
Board Balance	A.5.5	CG Report – CBSL Direction No.3(2)	96 to 98
Nomination Committee	A.7.1	<ul style="list-style-type: none"> • CG Report – CBSL Direction No.3(6) (iv) 105 • Report of the Board Nomination Committee 114 	
New Directors Appointed and their details including directorships and status of independence	A.7.3	<ul style="list-style-type: none"> • Profile of Directors 81 to 85 • Annexure to the Report of the Board of Directors 134 to 136 • CG Report – CBSL Direction No. 3(2)(iv) 97 	
Appraisal of Board Performance	A.9.4	CG Report – CBSL Direction No.3(1) (i)(i)	93
Board Related Disclosures (Profile, status, directorships, attendance, sub-committee membership, etc.)	A.10.1	<ul style="list-style-type: none"> • Profile of Directors 81 to 85 • Annexure to the Report of the Board of Directors 134 to 136 • CG Report – CBSL Direction Nos.3(1) (vi) and 3(6)(i) 94, 101 and 102 	
Disclosure of Remuneration	B.3 and B.3.1	CG Report – CBSL Direction No. 3(8)(ii)(f)	108
Major and Material Transactions	C.3 and C.3.1	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 2018 warranting disclosure in the Annual Report. Related party transactions are disclosed in Note 52 to the Financial Statements.	254
Audit Committee	D.3.3	CG Report – CBSL Direction No. 3(6)(ii)	102 to 104
Code of Business Conduct and Ethics	D.5.1 and D.5.4	Corporate Governance	91
Communication with Shareholders	C.2.2 to C.2.7	CG Report – CBSL Direction Nos. 3(1)(i)(d); 3(5)(iv)-(x)f.	93 and 100
Remuneration Committee Report	B.1.3	Report of the Board Human Resources and Remuneration Committee	113
Directors’ Report	D.1.4	Report of the Board of Directors on the State of Affairs of the Company	126 to 136
Financial Statements – Statement of Responsibility	D.1.5	Statement of Directors’ Responsibility for Financial Reporting	165
Related Party Transactions	D.1.8	CG Report - CBSL Direction No. 3(7)	106 and 107
Management Report	D.1.6	Value Creation Model Value Creation Story	14 24
Corporate Governance Report Compliance with provisions of the above Code of Best Practice	D.6.1	Please refer comment in this Report	109
Audit Committee Report	D.3.2	Report of the Board Audit Committee	111
Related Party Transactions Review Committee Report	D.4.3	Report of the Related Party Transactions Review Committee	121
Statement of Internal Control	D.1.5 and D.2.4	Directors’ Statement on Internal Control	123 and 124
Report on Internet of Things and Cyber security	G.5	Risk Management (reviewing information risk, integrity and availability)	153
Environment, Society and Governance (ESG) Reporting	H.1.1 to H.1.4	Value Creation Story	40 to 79

REPORT OF THE BOARD AUDIT COMMITTEE

The Board Audit Committee (“BAC”, “Audit Committee” or “the Committee”) of the Bank presents its Report for the year ended 2018. This Report was approved by the Board of Directors.

OBJECTIVE AND TERMS OF REFERENCE

The overall objective of the BAC 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. The scope and responsibilities of Seylan Bank’s Board Audit Committee emanates from its Terms of Reference approved by the Board. The Terms of Reference is annually reviewed by the Committee and was reviewed and revised during the year.

COMPOSITION OF THE COMMITTEE DURING THE YEAR

The Committee comprised:

- Ms M C Pietersz – Independent Director/Senior Director - Chairperson of the Committee
- Mr W D K Jayawardena – Non-Executive Director/ Deputy Chairman
- Mr S P S Ranatunga – Independent Director (retired from the Board as at 11 January 2019)
- Mr P L S K Perera – Independent Director
- Mr D R Abeyseriya – Independent Director (appointed to the Committee with effect from 18 December 2018)

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 25 years at senior level. The profiles of the above members are given on

pages 81 to 85 of this Annual Report. The Company Secretary functioned as the Secretary to the Committee.

MEETINGS

The Committee held 14 meetings during the year, which included two meetings with the External Auditors without the presence of the CEO and the Management. The Chief Financial Officer and the Head of Internal Audit were invited and attended the regular meetings of the Committee. The Head of Internal Audit reports directly to the BAC. 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.

Key matters reviewed and deliberated by the BAC in-depth with the External Auditors in the presence of the CEO and Management included findings in the Auditors’ Management Letter of the 2017 year-end statutory audit; findings in the 2018 half-year financial audit; SLFRS 9 impact assessments and quantifications; External Auditors’

2018 Audit Plan, etc. Regular meetings covered review of the internal audit matters and review of the financial statements; namely the year-end financial, half-year interim financials and interim financials for the quarters.

ATTENDANCE OF THE MEMBERS AT THE AUDIT COMMITTEE MEETINGS

The attendance of the members at the meetings was satisfactory and is presented in the subcommittee meetings attendance table on page 102 of this Annual Report.

RESPONSIBILITIES AND ACTIVITIES OF THE COMMITTEE

The responsibilities and activities carried out by the Committee and the extent of compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance are described in the following sections of the Corporate Governance Report (pages 102 to 104 of this Annual Report).

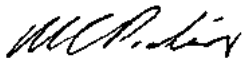
Section	Responsibility
3 (6) (ii) (c) and (d)	The Audit Committee’s role with regard to External Auditors
3 (6) (ii) (e)	Policy on engagement of an External Auditor for non-audit services
3 (6) (ii) (f)	Scope of external audit/audit plan
3 (6) (ii) (g)	Review of the Bank’s financial information
3 (6) (ii) (h)	Meeting with the External Auditors without Executive Management
3 (6) (ii) (i)	Management Letters of the External Auditors
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 (pages 107 and 108).

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 2018.



Ms Coralie Pietersz
Chairperson - Board Audit Committee
(Independent Director/Senior Director)

18 February 2019

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 2018. This Report was approved by the Board of Directors.

SCOPE AND OBJECTIVES 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 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 other employees of the Bank as well. The responsibilities are detailed in the Terms of Reference of the Committee which was reviewed annually and approved by the Board during the year.

COMPOSITION OF THE COMMITTEE

The Committee was reconstituted during the year as follows:

- Independent Director, Rear Admiral B A J G Peiris retired from the Board as at 7 January 2018. Independent Director, Mr D R Abeyesuriya was appointed as a member with effect from 29 October 2018 and Non-Executive Director, Mr I C Nanayakkara resigned from the Board as at 31 August 2018.

As at 31 December 2018, the Committee comprised:

- Ms M C Pietersz – Independent Director/Senior Director – Chairperson of the Committee (appointed as Chairperson with effect from 18 December 2018)
- Mr S P S Ranatunga – Independent Director
- Mrs S K Salgado – Independent Director

- Mr D R Abeyesuriya – Independent Director
- Mr S V Corea – Non-Executive Director (appointed with effect from 18 December 2018)

Independent Director, Mr S P S Ranatunga who was the Chairman of the Committee until 17 December 2018 retired as at 11 January 2019.

The Company Secretary functioned as the Secretary to the Committee during the year.

The Director/Chief Executive Officer (CEO) and Deputy General Manager, Human Resources 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.

MEETINGS

The Committee held four meetings during the year. Copies of the confirmed minutes and 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 subcommittee meetings attendance table on page 102 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 achievement of the short-term and long-term strategic goals and operational objectives of the Bank and aims to attract, motivate and retain qualified and competent persons 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 and approval of the shareholders. No recommendations were made during the year that required shareholder approval and/or disclosure in this Annual Report.

AGGREGATE REMUNERATION TO DIRECTORS AND KMPs

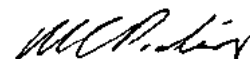
Aggregate remuneration paid to the Directors and the KMPs are disclosed under Direction No. 3 (8) (ii) (f) in the table reporting compliance with the Banking Act Directions on Corporate Governance on page 108 of this Annual Report.

RESPONSIBILITIES OF THE BHRRC

The responsibilities of the Committee and the extent of compliance with directions 3 (6) (iii) (a) to 3 (6) (iii) (d) of the Banking Act Directions on Corporate Governance No. 11 of 2007 have been disclosed in the relevant sections of the Corporate Governance Report published in the Annual Report on pages 104 and 105.

SELF-EVALUATION OF THE COMMITTEE

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



Ms Coralie Pietersz
Chairman, Board Human Resources and Remuneration Committee
(Independent Director/Senior Director)

18 February 2019

REPORT OF THE BOARD NOMINATION COMMITTEE

The Board Nomination Committee ("Committee") presents its Report for the year ended 31 December 2018. This report was approved by the Board of Directors.

OBJECTIVE OF THE COMMITTEE

The primary objective of the Board Nomination Committee is to assist 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 the Committee was reconstituted as follows;

- Independent Director/Senior Director, Ms M C Pietersz was appointed as a member while Mr S P S Ranatunga was appointed as the Chairman with effect from 29 January 2018 consequent to the retirement of Independent Director, Rear Admiral B A J G Peiris.
- Non-Executive Director, Mr W D K Jayawardena was appointed as a member with effect from 27 September 2018 pursuant to the resignation of Non-Executive Director, Mr I C Nanayakkara as at 31 August 2018.
- Independent Director/Senior Director, Ms M C Pietersz was appointed as the Chairperson and Independent Director, Mr A S Wijesinha was appointed as a member with effect from 18 December 2018.

As at 31 December 2018, the Committee comprised:

- Ms M C Pietersz – Independent Director/Senior Director – Chairperson of the Committee
- Mr S P S Ranatunga – Independent Director (retired from the Board as at 11 January 2019)
- Mr W M R S Dias – Non-Executive Director

- Mr W D K Jayawardena – Non-Executive Director
- Mr P L S Kumar Perera – Independent Director
- Mr A S Wijesinha – Independent Director

The Company Secretary functioned as the Secretary to the Committee during the year.

MEETINGS

The Committee held six meetings during the year. Copies of the confirmed minutes of the meetings and recommendations/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 subcommittee meetings attendance table on page 102 of this Annual Report. The Director/Chief Executive Officer and Deputy General Manager, Human Resources attended the meetings of the Committee on invitation.

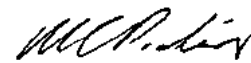
SCOPE OF WORK AND RESPONSIBILITIES OF THE COMMITTEE

The extent of the Committee's compliance with Direction Nos. 3 (6) (iv) (a) to (f) of the Banking Act Directions on Corporate Governance No. 11 of 2007 have been disclosed in the Corporate Governance Report on page 105 of this Annual Report. The key responsibilities executed during the year by the Committee included:

- Succession arrangements to the Board and for the KMPs of the Bank.
- Appointment of new Directors, Mr D M D K Thilakarathne and Mr D R Abey Suriya
- Recommendations for the reconstitution of Board subcommittees
- Review and revision of the Policy on Directors' Appointments for adoption by the Board.

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.



Ms Coralie Pietersz
Chairperson – Board Nomination
Committee
(Independent Director/Senior Director)

18 February 2019

REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Board Integrated Risk Management Committee (“BIRMC” or “the Committee”) presents its Report for the year ended 31 December 2018. The Report was approved by the Board of Directors.

OVERALL OBJECTIVE AND TERMS OF REFERENCE OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The mandate of the BIRMC defined in its Terms of Reference is 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 facing the Bank and its reputation, managing those risks within pre-approved limits for risk appetite and ensuring compliance. The Terms of Reference of the BIRMC was reviewed and renewed during the year.

COMPOSITION OF THE BIRMC

As at 31 December 2018, the Committee comprised of the following members:

- Mr D R Abey Suriya, Independent Director (appointed to the Committee on 29 October 2018 and as Chairman of the Committee with effect from 18 December 2018).
- Mr S P S Ranatunga – Independent Director (former Chairman of the Committee; retired from the Board as at 11 January 2019)
- Mr W M R S Dias – Non-Executive Director/Chairman
- Ms M C Pietersz – Independent Director/Senior Director
- Mr P L S K Perera – Independent Director
- Mr K P Ariyaratne – Director/Chief Executive Officer
- Mr R J Jayasekara – Chief Risk Officer (until 25 September 2018)
- Mr L A S Fernando – Acting Chief Risk Officer (with effect from 26 September 2018)

The members of the Committee possess experience in risk management, banking and finance and business management.

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 action.

The Chief Risk Officer (CRO) was present at the first three quarterly meetings whilst the Acting CRO attended the meeting held in the last quarter. The attendance of the Directors (who were members of the Committee) at the meetings held during the year was satisfactory and is presented in the subcommittee meetings attendance table on page 102 of the Annual Report.

The Head of Compliance and the Chief Financial Officer attended the regular meetings of the Committee. Other senior management members attended the meetings of the Committee on invitation.

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 under the CBSL Direction Nos. 3 (6) (v) (a) to 3 (6) (v) (h) of the Corporate Governance Report (pages 105 and 106 of the Annual Report).

COMPLIANCE FUNCTION

Mrs Dilani Sooriyaarachchi functions as the Head of Compliance. She reports

directly to the BIRMC. The Head of Compliance is responsible for ensuring the due compliance of the Bank with laws, regulations, internal controls and policies and industry best practices. Monthly reports from the Head of Compliance updating the Committee on compliance related matters were circulated to the Committee and the Board. The Annual Activity Plan of the Compliance Department for the year 2018 was approved by the Committee. Regulatory concerns highlighted in the Central Bank’s annual Statutory Audit Examination as at 31 January 2018 were also brought to the attention of the Committee and discussed.

INTEGRATED RISK MANAGEMENT FRAMEWORK AND IMPLEMENTATION

Some of the key and supplementary activities carried out and/or endorsed by the Committee during the year included (but not limited to); review and recommendation of policies related to risk management, review and in-depth deliberation of the total Gap Analysis relating to the Basel III Advanced Approach with the engagement of an external consultant; review of the extent of effectiveness of the Bank’s business continuity planning, disaster recovery testing, policies and procedures relating to information security risk, review of the progress made on the implementation of the Baseline Security Standards and review of the IT risk mitigation strategies (as presented by the Chief Information Officer). The Committee also reviewed the risk assessments and controls of the Bank’s Subsidiary, Seylan Developments PLC.

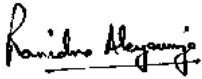
RISK MANAGEMENT UNIT

The Risk Management Unit is an independent unit headed by a Chief Risk Officer. The Unit 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 Unit to focus on improving communication and implementation of risk management responsibilities at all levels of the Bank.

A comprehensive report prepared by the Risk Management Unit disclosing the Bank's level of risk management and assessment including the levels of risk under different risk categories is presented on pages 137 to 162 of the Annual Report.

EVALUATION OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The members of the BIRMC carried out a self-assessment of the Committees' performance. The Committee was satisfied that it had carried out its responsibilities in an effective manner during the year.



D R Abeyseriya
Chairman – Board Integrated Risk
Management Committee
(Independent Director)

18 February 2019

REPORT OF THE BOARD CREDIT COMMITTEE

The Board Credit Committee ("the Committee") with its authority and responsibilities vested by the Board presents its Report in respect of the year 2018. This Report was approved by the Board of Directors on 18 February 2019.

COMPOSITION

The Committee comprised for the following members as at 31 December 2018:

- Mr A S Wijesinha – Independent Director – Chairman of the Committee (Appointed as the Chairman with effect from 27 September 2018)
- Mr K P Ariyaratne – Director/CEO
- Mr S V Corea – Non-Executive Director (Appointed to the Committee with effect from 1 September 2018)
- Mr D M D K Thilakaratne – Non-Executive Director (Appointed to the Committee with effect from 1 October 2018)

Independent Director, Rear Admiral B A J G Peiris who was a member retired from the Board as at 7 January 2018 and Non-Executive Director, Mr I C Nanayakkara who was the Chairman of the Committee resigned from the Board as at 31 August 2018.

The Company Secretary functioned as the Secretary to the Committee.

SCOPE AND RESPONSIBILITIES OF THE BOARD CREDIT COMMITTEE

These are set out in the Terms of Reference of the Committee which was reviewed and adopted by the Board during the year. They are mainly focused on improving the business and soundness of the Bank by promoting and reinforcing a sound, robust and healthy credit risk acceptance and Management culture by:

- Reviewing and where appropriate approving credit facilities or recommending them to the Board for approval.

- Guiding management and sharing such views with the Board Integrated Risk Management Committee to improve credit policies, procedures and lending guidelines and their implementation as well as processes for recoveries, empowerment and accountability for credit decision-making.

- 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

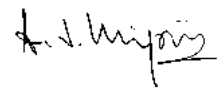
The Committee held 21 meetings during the year. Five resolutions by circulation of the Committee were also passed from time to time in respect of credit proposals which required the Committee's recommendation or approval on an urgent basis. Recommendations of the Committee were circulated to the Board for approval whilst copies of the confirmed Minutes were tabled for the perusal of the Board at the monthly Board meetings and important issues discussed. 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 in the subcommittee attendance table on page 102 of this Annual Report.

The Chief Risk Officer, Head of Treasury and Heads of Business Units attended the meetings of the Committee by invitation.

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.



Anushka Wijesinha
Chairman – Board Credit Committee
(Independent Director)

20 February 2019

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 2018. This Report was approved by the Board of Directors.

TERMS OF REFERENCE AND SCOPE AND RESPONSIBILITIES OF THE COMMITTEE

The scope and responsibilities of the Committee as set out in the Terms of Reference of the Committee stipulate that the Bank shall follow the GRI (Global Reporting Initiative) Sustainability Reporting Guidelines for reporting sustainability initiatives of the Bank.

COMPOSITION

The Committee comprised the following members as at 31 December 2018:

- Mrs S K Salgado – Independent Director (Appointed as the Chairperson of the Committee with effect from 27 September 2018)
- Mr K P Ariyaratne – Director/Chief Executive Officer
- Mr S V Corea – Non-Executive Director
- Mr D M D K Thilakarathne – Non-Executive Director (Appointed to the Committee with effect from 1 October 2018)

Independent Director, Rear Admiral B A J G Peiris who was a member retired from the Board as at 7 January 2018 and Non-Executive Director, Mr I C Nanayakkara who was the Chairman of the Committee resigned from the Board as at 31 August 2018.

The Company Secretary functioned as the Secretary to the Committee during the year.

MEETINGS

Three meetings of the Committee were held during the year 2018. Recommendations of the Committee and copies of the confirmed Minutes of the

meetings were circulated to the Board for review and approval or decisions on the matters discussed. Details of the Directors' attendance at the meetings are presented in the subcommittee meetings attendance table appearing on page 102 of this Annual Report.

The Chief Financial Officer and the Head of Marketing attended the meetings of the Committee held during the year on invitation.

RESPONSIBILITIES OF THE COMMITTEE

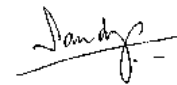
The Bank's main activity on corporate social responsibility (CSR) during the year was the "Seylan Pehesara" project (2013 – 2020) for the establishment of 250 school libraries across the island and the distribution of computers to under-privileged schools. This Project was steered by the Executive Sustainability Committee headed by the Director/CEO. As at 31 December 2018, 183 libraries were completed. The Bank also carried out several other CSR activities to support communities. Pages 68 to 79 of this Annual Report provide an update of the Sustainability/CSR initiatives of the Bank. On the Committee's recommendation, the Board approved the establishment of a library to a needy school in a remote area from the sales proceeds of the fractional shares that arose from the scrip dividend issue of the Bank in 2018.

The Committee reviewed the progress on implementation of the Environmental and Social Risk Management Policy. The Sustainability Policy of the Bank was also reviewed and recommended by the Committee and thereafter approved by the Board during the year.

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 2018 which is published on page 38 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.



Mrs Sandya Salgado
Chairperson – Board Sustainability
Committee (Independent Director)

18 February 2019

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 2018. This report was approved by the Board of Directors.

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 plan 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.

COMPOSITION

The Committee comprised the following members as at 31 December 2018:

- Mrs S K Salgado – Independent Director – Chairperson of the Committee (appointed as the Chairperson with effect from 18 December 2018)
- Mr S P S Ranatunga – Independent Director
- Mr W M R S Dias – Non-Executive Director
- Mr K P Ariyaratne – Director/Chief Executive Officer
- Mr A S Wijesinha, Independent Director

Mr S P S Ranatunga who was the Chairman of the Committee until 17 December 2018, retired from the Board as at 11 January 2019.

The Company Secretary functioned as the Secretary to the Committee.

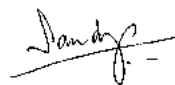
MEETINGS OF THE COMMITTEE

The Committee held two meetings during the year. The Terms of Reference of the Committee was since revised to give effect to the increase in the frequency of meetings. Copies of the Minutes of the meetings were submitted for the perusal of the Board. Attendance of the members at the meetings is given in the subcommittee meetings attendance table on page 102 of this Annual Report. 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 2018. The Strategic Marketing Plan for the year 2019 was also approved by the Committee at its last meeting held in 2018.

The Head of Marketing, the Chief Financial Officer and unit heads of the Marketing Department attended the regular meetings of the Committee on invitation.

EVALUATION OF THE COMMITTEE

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



Mrs Sandya Salgado
Chairperson – Board Marketing and Product Development Committee
(Independent Director)

18 February 2019

REPORT OF THE BOARD GOVERNANCE AND COMPLIANCE COMMITTEE

The Board Governance and Compliance Committee (“the Committee” or “the BGCC”) presents its report for the year ended 31 December 2018. This Report was approved by the Board of Directors.

SCOPE AND TERMS OF REFERENCE OF THE BOARD GOVERNANCE AND COMPLIANCE COMMITTEE

The scope and objective of the BGCC, as set out in the Terms of Reference of the Committee, is to assist 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. The Terms of Reference was reviewed and approved by the Board during the year.

COMPOSITION

The Committee comprised the following members as at 31 December 2018:

- Mr P L S K Perera – Independent Director – Chairman of the Committee
- Mr W M R S Dias – Non-Executive Director/Chairman
- Ms M C Pietersz – Independent Director/Senior Director
- Mr S V Corea – Non-Executive Director

Independent Director, Rear Admiral B A J G Peiris who was a member of the Committee retired from the Board as at 7 January 2018.

The Company Secretary functioned as the Secretary to the Committee during the year.

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 subcommittee attendance table on page 102 of this Annual Report. Copies of the Minutes of the meetings were submitted for the perusal of the Board whilst recommendations of the Committee were considered and decided upon at the Board meetings that followed the Committee meetings.

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

KEY RESPONSIBILITIES OF THE COMMITTEE GOVERNANCE

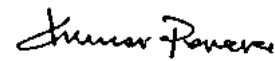
A Corporate Governance Framework approved by the Board of Directors is in place. The Committee is responsible for providing advice to the Board on the most appropriate corporate governance practices, in fulfilling its corporate governance oversight responsibilities, besides being in compliance with the corporate governance principles and regulations. The Committee reviewed and recommended revisions to the Stakeholder Engagement Policy which was approved by the Board thereafter. The Committee also reviewed the composition of Board subcommittees during the year.

COMPLIANCE

Several aspects of the Bank’s compliance function were reviewed by the Committee and appropriate advice and guidance provided to the Head of Compliance. 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.

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 2018.



Kumar Perera
Chairman-Board Governance and Compliance Committee
(Independent Director)

18 February 2019

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 2018. This Report was approved by the Board of Directors.

SCOPE AND TERMS OF REFERENCE OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Terms of Reference of the Committee sets out the scope and objective 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 & Exchange Commission of Sri Lanka (SEC). The Terms of Reference was reviewed and approved by the Board during the year.

COMPOSITION

The Committee comprised the following members as at 31 December 2018:

- Mr P L S Kumar Perera – Independent Director – Chairman of the Committee
- Ms M Coralie Pietersz – Independent Director/Senior Director
- Mr S Viran Corea – Non-Executive Director
- Mr A S Wijesinha – Independent Director

Independent Director, Rear Admiral B A J G Peiris who was a member retired from the Board as at 7 January 2018.

The Company Secretary functioned as the Secretary to the Committee.

MEETINGS OF THE RPTRC

The Committee held 4 meetings during the year on a quarterly basis. Details of attendance of the members at the meetings are presented in the subcommittee meeting attendance table on page 102 of this Annual Report. Copies of the confirmed minutes of meetings were submitted to the ensuing meeting of the Board for perusal.

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

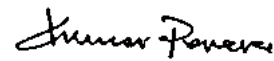
REVIEW OF RELATED PARTY TRANSACTIONS

The Committee ensured compliance with Section 9 of the Rules of the CSE and the SEC’s Code on Related Party Transactions. A summary of recurrent related party transactions, approved by the Board, were reviewed by the Committee at its regular meetings. Non-recurrent related party transactions, which required prior recommendation of the Committee, were tabled and recommended by the Committee prior to being approved by the Board. The Bank did not carry out any related party transactions which required shareholder approval and/or disclosure in terms of Rule 9.3.1 and 9.3.2 of the CSE Rules during the year.

The Bank has in place a Related Party Transaction and Avoidance of Conflict of Interest Policy and Process Document. The Committee regularly reviewed the mechanism/process for recording, monitoring and reporting related party transactions and provided necessary guidance and advice to ensure the effectiveness of this process.

EVALUATION OF THE COMMITTEE

The Committee carried out a self-evaluation of the performance and effectiveness of the Committee and was satisfied that it had carried out its responsibilities in an effective manner during the year.



Kumar Perera
Chairman – Related Party Transactions Review Committee
(Independent Director)

18 February 2019

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 2018. This Report was approved by the Board of Directors on 18 February 2019.

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 timelines. The Committee reviews and provides the Management necessary guidance towards achieving the objectives of the Strategic Plan.

COMPOSITION

The Committee comprised the following members as at 31 December 2018:

- Mr A S Wijesinha – Independent Director – Chairman of the Committee (Appointed as the Chairman of the Committee with effect from 18 December 2018)
- Mr S P S Ranatunga – Independent Director
- Mr K P Ariyaratne – Director/Chief Executive Officer
- Mrs S K Salgado – Independent Director
- Mr D R Abeyesuriya – Independent Director (Appointed to the Committee with effect from 29 October 2018)

Non-Executive Director, Mr I C Nanayakkara who was a member of the Committee resigned from the Board as at 31 August 2018 and Independent Director, Mr S P S Ranatunga who was the Chairman of the Committee until 17 December 2018 retired from the Board as at 11 January 2019.

The Company Secretary functioned as the Secretary to the Committee.

MEETINGS

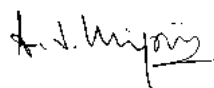
Four meetings of the Board Strategic Plan Committee were held during the year 2018. Copies of the confirmed Minutes of the meetings were circulated to the Board for review and further deliberations of the matters discussed. Details of the Directors’ attendance at the meetings are presented in the Board subcommittee attendance table on page 102 of this Annual Report.

Senior Management members of the Bank attended the meetings on invitation.

The responsibilities executed by the Committee included review of the effectiveness of the Strategic Plan programme implementation, review of the adequacy of the resources for the achievement of the objectives of the Strategic Plan, provisions of advice, guidance, directions to management to lead and drive the Strategic Plan and resolve key strategic or implementation issues.

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.



Anushka Wijesinha
Chairman – Board Strategic Plan
Committee (Independent Director)

20 February 2019

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 present 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 ongoing 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 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 FOR APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

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

- The Board is assisted by the Board Committees established by the Board in ensuring the effectiveness of the Bank's daily operations in terms of alignment with the corporate objectives, strategies and the annual budget and that the policies and business directions have been approved as required.
- The Board Audit Committee of the Bank evaluates the adequacy and effectiveness of the risk management and internal control systems and monitors the internal control issues identified by the Internal Audit Department, the External Auditors, regulatory authorities and the Management. They also review the internal audit functions with emphasis on the scope and the quality of internal audits. The minutes of the Audit Committee meetings are tabled at Board meetings 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 111 and 112.
- Apart from the Audit Committee, several 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 Board Integrated Risk Management Committee, Governance and Compliance Committee, Human Resource and Remuneration Committee, the Nomination Committee, the Credit Committee, the Sustainability Committee, the 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 Department of the Bank reviews the effectiveness of the internal control systems and the design of and compliance with the policies and procedures on an ongoing basis. Audits are carried out on all units and branches, the frequency and the scope of which is determined by the level of risk assessed, to provide an independent and objective assessment 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 escalated to the Audit Committee.
- Policies and procedures for ensuring compliance with internal controls and the relevant laws and regulations are set out in operation 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 reviewed by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis.
- The Bank adopted SLFRS 9 - "Financial Instruments" with effect from 1 January 2018. SLFRS 9 replaces the "incurred loss" model as per LKAS 39 with the "expected credit loss" model. This new methodology had a significant impact on the Bank's methodology on calculating the impairment losses for loans and advances. The Bank implemented a process to make required adjustment to impairment calculation methodology of the Bank during the year with the implementation of SLFRS 9.

The Board continuously monitored SLFRS 9 implementation process throughout the year after a comprehensive assessment of the gaps and expected impact to the Financial Statements as a result of adopting SLFRS 9 which was carried out in 2017 with the assistance of an external consultant. The Board ensured the models developed to calculate the impairment provisions due to adoption of SLFRS 9 have been adequately tested and calibrated. The Bank performed parallel calculation of SLFRS 9 impairment based on these models and the high level financial impact was disclosed in Quarterly Financial Statements during 2018. All required adjustments as per SLFRS 9 are made with the necessary disclosures in the annual Financial Statements for the year ended 31 December 2018.

The process for quantifying the necessary adjustments to the Financial Statements was based on spread sheet application. However, the formal documentation of the process followed by the Bank for quantification of adjustments and testing of such process by the internal audit is not complete as at the date of this Report and this will be addressed on an ongoing basis from the ensuing financial year.

The recommendations made by the External Auditors in connection with the internal control system in the financial year ended 31 December 2017 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 2018 will be addressed in the ensuing year.

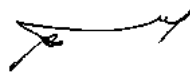
CONFIRMATION

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 regulatory requirements of the Central Bank of Sri Lanka. This confirmation does not include the subsidiary of the Bank.

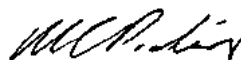
REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' Statement on Internal Control of the Bank for the year ended 31 December 2018 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 125 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

20 February 2019
Colombo

AUDITORS' REPORT ON INTERNAL CONTROL



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
: +94 - 11 244 6058
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 2018 set out in pages 123 to 124 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 Director's 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

18 February 2019

REPORT OF THE BOARD OF DIRECTORS 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”) together with the Audited Financial Statements of the Bank, the Consolidated Financial Statements of the Group and the Auditors’ Report on those Financial Statements for the financial year ended 31 December 2018.

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

The Report and the aforementioned Financial Statements were reviewed and approved by the Board of Directors on 18 February 2019.

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.

Disclosures as required under Section 168 of the Companies Act No. 07 of 2007, in respect of the year 2018 are published in the following pages/ sections of the Annual Report.

Section	Information required to be disclosed	Compliance and/or required disclosure – page/s of the Annual Report
168 (1) (a)	The nature of the business of the Company and the subsidiaries.	127 (item Nos. 3 and 4 of this Report)
168 (1) (b)	Signed Financial Statements of the Company for the Accounting Period completed in accordance with Section 152.	173 (Financial Statements)
168 (1) (c)	Auditor’s report on Financial Statements of the Company and the Group.	167 to 170 (Independent Auditors’ Report)
168 (1) (d)	Changes in Accounting Policies made during the accounting period.	181 and 182 (Notes to the Financial Statements)
168 (1) (e)	Particulars of the entries in the interest register made during the accounting period.	131 (item No. 23 of this Report)
168 (1) (f)	Remuneration and other benefits of the Directors during the accounting period.	211 and 254 (Notes 13 and 52 to the Financial Statements)
168 (1) (g)	Total amount of donations made by the Company during the accounting period.	128 and 211 (item No. 13 of this Report and Note 13 to the Financial Statements)
168 (1) (h)	Information on Directorate of the Company during and at the end of the accounting period and persons who ceased to hold office as Directors during the accounting period.	130 (item Nos. 20.1 and 20.2 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	211 (Note 13 to the Financial Statements)
168 (1) (j)	Auditor’s relationship or any interest with the Company and its subsidiaries	133 (item No. 41 of this Report)
168 (1) (k)	Annual Report of the Board signed on behalf of the Board of Directors	133 (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. PQ9). 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 2014, 2016 and 2018 are listed in the CSE. Fitch Ratings Lanka Ltd has affirmed the Bank’s National Long-Term Rating at A-(Ika) with a stable outlook and has affirmed the Bank’s Senior Unsecured Debentures at A-(Ika) whilst assigning a BBB+(Ika) 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, pawn broking, 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 principle 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 principle 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 2018. Please refer Section 29 of this Report for information on the Board of Directors of SDP.

The Bank received a dividend of LKR 84,509,010.72 paid by the subsidiary during the year under review.

5. BRANCH NETWORK

As at 31 December 2018, the Bank's branch network comprised 170 banking centres and 98 Student Savings Centres, island-wide. Locations and details of the banking centres as at the date of this

Report as well as locations of off-site ATMs are given on page 277 of this Annual Report.

6. REVIEW OF PERFORMANCE IN 2018 AND FUTURE DEVELOPMENT PLANS

The Chairman's Message, the Chief Executive Officer's Review and the Management Discussion and Analysis published in this Annual Report provide an overall assessment and review of the operations and financial performance of the Bank during the year 2018 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 (LKASs/SLFRSs) in the preparation of the Financial Statements. Consequently, the necessary quantifications and disclosures have also been made based on LKAS/SLFRS. The significant accounting policies adopted in preparation of the Financial Statements are given on pages 182 to 195 in this Annual Report.

The Audited Financial Statements of the Bank and the Group for the financial year ended 31 December 2018 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 (I) (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 page 165 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 2018 and their Report on the Financial Statements appears on pages 167 to 170 of this Annual Report.

10. FINANCIAL RESULTS

The income and profit of the Bank and those of the Group for the year ended 31 December 2018 are given in the table below. An analysis of the income is given in the Notes to the Financial Statements published in this Annual Report:

	2018		2017	
	Bank LKR Bn.	Group LKR Bn.	Bank LKR Bn.	Group LKR Bn.
Gross income	54.873	54.845	49.161	49.696
Operating income	23.192	23.202	20.939	21.546
Profit before income tax	4.666	4.687	6.656	7.285
Less: income tax	1.477	1.536	2.226	2.281
Profit after income tax	3.189	3.151	4.430	5.004
Profit before one-off additional gratuity expense and after tax	4.006	3.968	4.430	5.004

11. TAXATION

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

12. 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 2018 is also given in Note 49 to the Financial Statements.

	Bank		Group	
	2018 LKR Bn.	2017 LKR Bn.	2018 LKR Bn.	2017 LKR Bn.
Acquisition of property, plant and equipment, leasehold rights and intangible assets	1,203,633	861,584	1,220,469	884,211
Net book value of freehold properties	1,575,638	1,589,415	4,169,364	4,064,234

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.

13. DONATIONS

During the year, the Bank made donations amounting to LKR 1,125,000.00 (Donations made in 2017 amounted to LKR 3,535,000.00).

14. RECOMMENDATION OF ORDINARY DIVIDEND AND SOLVENCY CERTIFICATION

The Directors have recommended a First and Final Ordinary Dividend of LKR 2.50 per share (both ordinary voting and ordinary non-voting) for the year ended 31 December 2018. The dividend of LKR 2.50 per share will consist of LKR 0.50 per share in the form of cash dividend and LKR 2.00 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 28 March 2019 and upon such approval, the dividend will be issued to the shareholders

registered as at 28 March 2019 (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 issued a first and final ordinary dividend of LKR 3.50 per share for the financial year ended 31 December 2017 on 29 March 2018. The dividend of LKR 3.50 per share consisted of LKR 1.00 per share in the form of cash dividend and LKR 2.50 per share in the form of a scrip dividend.

15. RESERVES

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

	Bank		Group	
	2018 LKR Bn.	2017 LKR Bn.	2018 LKR Bn.	2017 LKR Bn.
Total reserves (including Statutory Reserve Fund)	22,584,004	22,977,654	24,221,111	24,598,704

16. STATED CAPITAL

The Stated Capital of the Bank as at 31 December 2018 was LKR 12,025,795,114.70.

16.1 SHAREHOLDINGS

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

Class of shares	Number of shares	
	2018	2017
Ordinary voting shares	184,104,010	179,613,669
Ordinary non-voting shares	181,995,082	174,842,437

As at 31 December 2018, the number of registered shareholders of the Bank included 9,030 ordinary voting shareholders and 6,728 ordinary non-voting shareholders.

17. 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 pages 273 and 275.

17.1 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 2018 was as follows:

As at 31 December	Shareholders	2018		2017
		Shares	Percentage (%)	Percentage (%)
Ordinary voting shares	9,011	99,966,985	54.30	54.29
Ordinary non-voting shares	6,720	101,799,357	55.94	55.94

17.2 MARKET CAPITALISATION

As at 31 December	2018 LKR Bn.	2017 LKR Bn.
	22.46	25.45

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 272 to 274 of this Annual Report.

18. DEBENTURES

18.1 DEBENTURES IN ISSUE

	LKR
Value of Debentures as at 1 January 2018	12,134,870,000.00
Redemption of Debentures 2013/2018 on 22 February 2018	2,000,000,000.00
Allotment of new debentures – Debenture Issue 2018	6,234,000,000.00
Redemption of Debentures 2014 (4-year category) on 23 December 2018	462,280,000.00
Total value of Debentures as at 31 December 2018	15,906,590,000.00

Please refer pages 274 to 276 for further information.

18.2 UTILISATION OF FUNDS OF THE DEBENTURE ISSUE 2018

	Objective as per prospectus	Proposed date of utilisation as per prospectus	Amount allocated from proceeds in LKR (A)	Percentage of total proceeds (%)	Amount utilised in LKR (B)	Percentage of utilised against allocation (B/A) (%)	Details, if not fully utilised
1.	To strengthen the Tier 2 Capital base of the Bank in accordance with Basel III requirements.	With effect from the closure of the Issue					
2.	To utilise the entire proceeds of the issue to grow the loans and advances portfolio through diverse lending products in the ordinary course of the Bank	Over the period of twelve months from the date of allotment or 31 December 2018 whichever is earlier	6.234 Bn.	100	6.234 Bn.	100	N/A

18.3 PROPOSED DEBENTURE ISSUE

The Board of Directors approved that the Bank proceed with a public issue of thirty million (30,000,000) 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 upto a further twenty million (20,000,000) 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 totaling to fifty million (50,000,000) 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). The proposed issue is subject to the approval of the Colombo Stock Exchange.

19. EQUITABLE TREATMENT OF SHAREHOLDERS

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

20. DIRECTORATE

20.1 DIRECTORS WHO HELD OFFICE AS AT 31 DECEMBER 2018

Name of Director	Status of directorship
Mr W M R S Dias	Non-Executive Director/Chairman
Mr W D K Jayawardena	Non-Executive Director/Deputy Chairman
Ms M C Pietersz	Independent Non-Executive Director/Senior Director
Mr K P Ariyaratne	Director/Chief Executive Officer
Mr S P S Ranatunga (retired as at 11.01.2019)	Independent 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
Mr D M D K Thilakaratne	Non-Executive Director
Mr D R Abeysuriya	Independent Non-Executive Director
Mr R D Tissera	Alternate Director to Non-Executive Director, Mr W D K Jayawardena

The Profiles of the Directors who were on Board as at the date of this Report including their membership/s in Board Sub-Committees are given on pages 81 to 85 of this Annual Report.

20.2 CHANGE OF DIRECTORATE DURING THE YEAR 2018

Independent Director, Rear Admiral B A J G Peiris retired from the Board as at 7 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).

Mr D M D K Thilakaratne who was appointed on 18 April 2018 as the Alternate Director to Mr I C Nanayakkara ceased to be an alternate Director upon Mr I C Nanayakkara's resignation. Mr R D Tissera was appointed as the Alternate Director to Mr W D K Jayawardena with effect from 18 April 2018.

Non-Executive Director, Mr D M D K Thilakaratne and Independent Director Mr D R Abeysuriya were appointed to the Board with effect from 1 October 2018 and 17 October 2018 respectively.

20.3 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 Rules 7.10.2 and 7.10.4 of the Colombo Stock Exchange Rules of Corporate Governance as well as with Sections 3 (2) (iv) of the Banking Act Direction No. 11 of 2007.

20.4 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.

20.5 LIST OF DIRECTORSHIPS OF THE DIRECTORS IN OTHER ENTITIES

Lists of directorships as at 31 December 2018 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 directorships (executive/non-executive/independent status) and the status where an entity is a listed entity.

21. RECOMMENDATIONS FOR RE-ELECTION/ELECTION OF DIRECTORS

In terms of Article 82 of the Articles of Association, Non-Executive Director/Chairman, Mr W M R S Dias and Non-Executive Director, Mr S V Corea 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.

In terms of Article 89 of the Articles of Association, Non-Executive Director, Mr D M D K Thilakaratne and Independent Director, Mr D R Abeysuriya

who were appointed during the year 2018 to fill casual vacancies on the Board offer themselves for election at the forthcoming Annual General Meeting of the Bank. The Board Nomination Committee and the Board of Directors have recommended their election.

22. MEETINGS OF THE BOARD OF DIRECTORS

Twelve Regular monthly meetings and five special meetings were held during the year. The special meetings were held to consider and decide on important and urgent issues and 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 95 and 102.

23. DIRECTORS' INTEREST IN CONTRACTS AND DIRECTORS' INTEREST 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' Interest Register. The Directors' Interest 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.

24. DIRECTORS' INTEREST IN SHARES AND DEBENTURES OF THE BANK

Directors' holdings in shares and Debentures of the Bank as at 31 December 2018 are given below:

Name of Director	31 December 2018	31 December 2017	Shares/Debentures (Par value: LKR 100.00)
Mr W M R S Dias	Nil	Nil	
	50,000	N/A	Debentures 2018
	Nil	Nil	-
	Nil	Nil	-
Mr W D K Jayawardena	Nil	Nil	-
Ms M C Pietersz	Nil	Nil	-
Mr K P Ariyaratne	38,206	37,275	Ordinary voting shares
	145,395	139,681	Ordinary non-voting shares
	Nil	30,000	Debentures 2013/2018 - annual interest
	Nil	10,000	Debentures 2013/2018 - Semi-annual interest
	32,700	32,700	Debentures 2016 - Semi-annual interest
	200,000	N/A	Debentures 2018
Mr S P S Ranatunga	Nil	Nil	-
Mr P L S K Perera	Nil	Nil	-
Mr S V Corea	95	Nil	Ordinary voting shares
Mr A S Wijesinha	Nil	Nil	-
Mrs S K Salgado	Nil	Nil	-
Mr D M D K Thilakarathne	Nil	N/A	-
Mr D R Abeyseriya	Nil	N/A	-
Mr R D Tissera	Nil	N/A	-

Percentage shareholding of Directors:

Ordinary voting shares (%)	0.02	0.02
Ordinary non-voting shares (%)	0.08	0.08

No change occurred in the Directors' interest in shares and debentures after 31 December 2018 and before the date of this Report of the Board of Directors.

25. DIRECTORS' REMUNERATION

Details of Directors' emoluments paid in respect of the Bank and the Group for the year, 2018 are given in Note 13 to the Financial Statements in this Annual Report in terms of the Section 168 (1) (f) of the Companies Act No. 07 of 2007.

26. 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 2018/19.

27. 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 2018 and their respective reports for the year 2018 are presented on pages 111 to 122 of this Annual Report:

- Board Audit Committee
- Board Integrated Risk Management Committee

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

28. 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 Rules 9.3.1 and 9.3.2 of the CSE Rules.

29. DIRECTORATE OF THE SUBSIDIARY, SEYLAN DEVELOPMENTS PLC

The Board of the Bank's Subsidiary, Seylan Developments PLC as at 31 December 2018 comprised six Directors, all of whom were Non-Executive, namely, Messrs K P Ariyaratne (Chairman), S Paliyawadana (Deputy Chairman), R J Jayasekara, P D Hennayake, P Saravanapavan and LT Kiringoda. Mr P Saravanapavan and Mr LT Kiringoda are Independent Non-Executive Directors. The other four Directors were deemed not independent since they were employees of the Bank.

30. HUMAN RESOURCES

The Board Human Resources and Remuneration Committee guided the Management on the execution of human resource strategies and their consolidation to the business with the objective of enhancing productivity in the Organisation whilst curtailing the cost to income ratio. This had helped the Bank in managing the human capital more efficiently in line with industry norms.

Further the Board performed an effective role in providing a solution for the long outstanding matter of contention relating to the payment of enhanced gratuity of additional half month basic salary for those employees who were categorised as eligible.

Key activities in the areas of people management such as transformation of general banking job roles into new business channels and strengthening the sales and relationship management culture, competency upgrading of staff and establishing lean structures in branch banking and finalisation of a new Collective Agreement with the unions for the next three years were focused by the Board during year 2018 .

31. 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 92 to 110.

The External Certification of the Bank's Compliance with the Central Bank's Code of Corporate Governance (namely, the Banking Act Direction No.11 of 2007) performed in line with agreed upon procedures set out in Sri Lanka Related Services Practice Statement (SLRSPS 4750) was provided by the Bank's External Auditors, Messrs KPMG.

32. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

32.1 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 page 115 of this Annual Report whilst a detailed Risk Management Report of the Bank is given on pages 137 to 162.

32.2 SYSTEM OF INTERNAL CONTROL

The Board recognises that robust internal control mechanism is indispensable in the governance framework adopted by the Bank. Internal control is a process, carried out at various levels in the Bank aiming to provide reasonable certainty for the achievement of the objectives; efficiency and effectiveness of operating activities; reliability of accounting information; and compliance with laws and regulations. The internal control framework of the Bank consists of organisational structures; effectively designed and periodically reviewed business processes with documented procedures, instructions and guidelines and duly approved delegated authority levels. Effective 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 Board confirms the existence of an effective system of internal controls for managing the risks faced by the Bank by taking timely risk mitigation actions and ensuring 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.

33. 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.

34. OUTSTANDING LITIGATIONS

In the opinion of the Directors and external legal counsels retained by the Bank, litigations currently pending against the Bank as disclosed in Note 48 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

35. EMPLOYEES' SHARE OWNING SCHEME

Six employee share owning 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 13,341,918 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 52 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 48 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.

36. 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 74 to 77.

37. 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.

38. EVENTS AFTER THE REPORTING DATE

No events have occurred after the reporting date which would require adjustments to or disclosure in the Accounts, other than those given in Note 51 to the Financial Statements.

39. 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.

40. AUDITORS

The Bank's Auditors during the period under review were Messrs KPMG, Chartered Accountants. The Audit Fees and Consolidated Audit Fees for the accounting period are given in Note 13 to the Financial Statements.

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.

41. 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 Seylan Bank or on the Board of its subsidiary.
- The audit and non-audit fees paid/ payable to the Auditors are negotiated

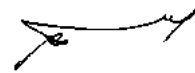
and are not above industry norms and they do not receive fees from other assignments except as stated above.

- Messrs KPMG is a firm of high repute and the firm had the necessary skills to competently carry out the non-audit related assignments entrusted to them.
- Partner and Audit team rotation was complied.

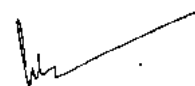
42. NOTICE OF ANNUAL GENERAL MEETING

Notice of Meeting relating to the Thirty Second (32nd) Annual General Meeting of the Bank scheduled to be held on 28 March 2019 at 10.00am at Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 is circulated to the shareholders with this Annual Report.

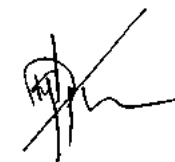
We, the undersigned acknowledge the contents of this Report and its Annexure and have placed our signatures for and on behalf of the Board of Directors of Seylan Bank PLC, at Colombo, this 18th day of February 2019.



W M R S Dias
Chairman



W D Kapila Jayawardena
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' INTEREST REGISTER AND DIRECTORS' INTEREST IN TRANSACTIONS AS AT 31 DECEMBER 2018

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 52 to the Financial Statements on pages 254 to 257 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 % (if any)
Mr W M R S Dias (Non-Executive Director/Chairman)		
Listed Entities		
1. Carson Cumberbatch PLC	Independent Non-Executive Director	-
2. Senkadagala Finance PLC	Independent Non-Executive Director	-
3. Tokyo Cement Co (Lanka) PLC	Independent Non-Executive Director	-
Unlisted Entities		
4. Ceylon Tea Marketing (Pvt) Limited	Independent Non-Executive Director	-
5. South Asia Textiles Limited	Independent Non-Executive Director	-
6. Tokyo Super Cement Company Lanka (Pvt) Limited	Non-Executive Director	-
7. Tokyo Cement Power Lanka (Pvt) Limited	Non-Executive Director	-
8. Tokyo Eastern Cement Company (Pvt) Limited	Non-Executive Director	-
9. Tokyo Supermix (Pvt) Limited	Non-Executive Director	-
10. Superfine Teas (Pvt) Limited	Non-Executive Director	-
11. Jay-Cey-Tea (Pvt) Limited	Non-Executive Director	-
Mr W D K Jayawardena (Non-Executive Director/Deputy Chairman)		
Listed Entities		
1. Browns Capital PLC	Non-Executive Chairman	-
2. Brown & Co PLC	Non-Executive Director	-
3. Browns Investments PLC	Non-Executive Director	-
4. Eden Hotel Lanka PLC	Non-Executive Chairman	-
5. LOLC Development Finance PLC	Non-Executive Director	-
6. LOLC Holdings PLC	Managing Director/CEO	-
7. Palm Garden Hotels PLC	Non-Executive Chairman	-
Unlisted Entities		
8. Ceylon Graphene Technologies (Pvt) Limited	Non-Executive Director	-
9. LOLC Advanced Technologies (Pvt) Limited	Non-Executive Director	-
10. LOLC Africa Holdings (Pvt) Limited	Non-Executive Director	-
11. LOLC Asia Private Limited	Non-Executive Director	-
12. LOLC General Insurance Limited	Non-Executive Chairman	-
13. LOLC International (Pvt) Limited	Non-Executive Director	-
14. LOLC (Pvt) Limited	Non-Executive Director	-
15. LOLC Securities Limited	Non-Executive Chairman	-
16. Riverina Resort (Pvt) Limited	Non-Executive Director	-
17. Sri Lanka Institute of Nano technology (Pvt) Limited	Non-Executive Director	-

Entity	Directorships (Executive/Non-executive status)	Substantial Shareholding % (if any)
--------	---	-------------------------------------

Ms M C Pietersz (Independent Director/Senior Director)

Listed Entities

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

Unlisted Entities

4. Finlay Airline Agencies (Pvt) Limited	Executive Director	-
5. Finlay Cold Storage (Pvt) Limited (resigned on 29 January 2019)	Executive Director	-
6. Finlays Colombo Limited	Finance Director	-
7. Finlays Linehaul Express (Pvt) Limited	Executive Director	-
8. Finlay Plantation Management (Pvt) Limited	Executive Director	-
9. Finlay Properties (Pvt) Limited	Executive Director	-
10. Finlay Rentokil Ceylon (Pvt) Limited	Executive Director	-
11. Finlay Teas (Pvt) Limited	Executive Director	-
12. Finlay Tea Estates Lanka (Pvt) Limited	Executive Director	-
13. Finlay Tea Solutions Colombo (Pvt) Limited	Executive Director	-
14. 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	-
----------------------------	---------------------------------	---

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	-

Mr S P S Ranatunga (Independent Director) (retired as at 11 January 2019)

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 % (if any)
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	Independent Non-Executive Director	
3. HNB Finance Limited	Independent Non-Executive Director	
Mrs Sandya K Salgado (Independent Director)		
Unlisted Entities		
1. Carnival Movies Lanka Limited	Executive Director	-
2. Film Island (Pvt) Limited	Non-Executive Director	18.33%
3. Jigsaw International (Pvt) Limited	Executive Director	33.31%
4. WAD International (Pvt) Limited	Non-Executive Director	16.66% [indirect]
5. The Drug Shop	Partner	50% (partnership)
Mr D M D Krishan Thilakarathne (Non-Executive Director)		
Listed Entities		
1. Commercial Factors PLC	Non-Executive Director	-
2. Commercial Leasing & Finance PLC	Director/Chief Executive Officer	-
Unlisted Entities		
3. Commercial Insurance Brokers (Pvt) Limited	Non-Executive Director	-
4. PRASAC Micro Finance Limited Cambodia	Non-Executive Director	-
5. Credit Information Bureau of Sri Lanka	Non-Executive Director	-
Mr D Ravindra Abeysuriya (Independent Director)		
Listed Entities		
1. HNB Assurance PLC	Non-Executive Director	-
Unlisted Entities		
2. Bio-Foods (Pvt) Limited	Non-Executive Director	-
3. Candor Asset Management (Pvt) Limited	Executive Director	-
4. Candor Capital (Pvt) Limited	Executive Director	-
5. Candor Equities Limited	Executive Director	-
6. Candor Shared Services (Pvt) Limited	Executive Director	-
Mr R Dhammika Tissera (Alternate Director to Mr W D K Jayawardena)		
Listed Entities		
1. LOLC Development Finance PLC	Non-Executive Director	-
2. LOLC Finance PLC	Executive Deputy Chairman	-
Unlisted Entities		
3. LOLC Mauritius Holdings Limited	Non-Executive Director	-
4. LOLC Micro Investment (Pvt) Limited	Non-Executive Director	-
5. Sundaya Lanka (Pvt) Limited	Non-Executive Director	-

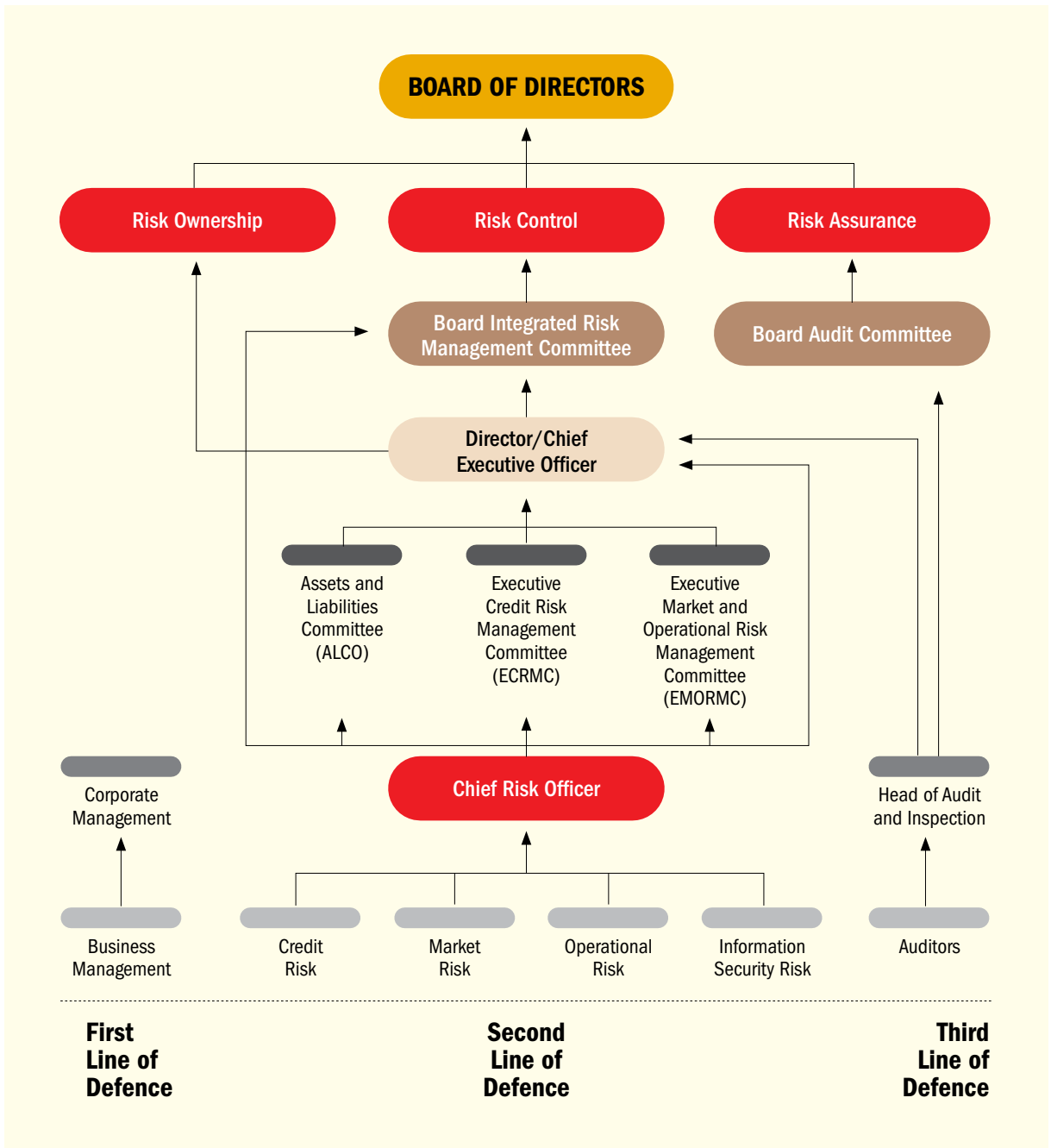
Risk Management

INTEGRATED RISK MANAGEMENT AND GOVERNANCE STRUCTURE

Risk management in Seylan Bank is structured on the Three Lines of Defence concept to ensure a cohesive and coordinated approach.

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 audits provide 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 has 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, overdrafts 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 – Bank, Swaps, external borrowings in domestic currency).

Operational risk (Pawning operational losses as a percentage of pawning capital outstanding, non-rectified high risk audit findings 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 regulatory requirements and reputational risk.

RISK APPETITE STATEMENT (Comprising Key Credit, Market, Liquidity and Operational Indicators)

Risk type	Tolerance limit 2018 %	December 2018 %	December 2017 %	Low	Medium	High
Credit risk						
1. Gross NPA ratio (as per CBSL)	3.80	6.55	4.83			●
2. Gross NPA ratio (Net of IIS as per CBSL)	3.25	5.98	4.42			●
3. Overdue + NPA/total advances	10	16.45	14.88			●
4. Specific provision/gross NPL	35	18.53	21.60		●	
5. Watch list/total performing advances	8.50	10.83	10.56			●
6. Performing overdrafts without limits (LKR Mn.)	750	324	764	●		
7. Large exposure/core capital (Times)	7	5.55	5.91		●	
8. Exposure on related parties/core capital	Max of 55	23.26	27.76	●		
9. Open credit exposure	Less than 17.5	37.50	26.27			●
Market risk						
10. Maturity gap less than one year to total liabilities	Less than 25%	3.36	3.55	●		
11. Government Securities to total assets (Interest bearing)	Less than 30%	20.38	21.79	●		
12. Equity investment value (Quoted-CSE) to total assets (Interest bearing)	Less than 1%	0.07	0.06	●		
13. Net open position short (-)/Long(+) (USD) (Mn.)	+10 Mn. -16 Mn.	0.722	-0.134	●		

Risk type	Tolerance limit 2018 %	December 2018 %	December 2017 %	Low	Medium	High
Liquidity risk						
14. Statutory liquidity ratio Domestic Banking Unit	>21	21.44	23.57	●		
15. Statutory liquidity ratio Foreign Currency Banking Unit	>21	22.08	37.08	●		
16. Advances to Deposits Ratio – Bank	<97.50	94.19	93.28	●		
17. Advances to Deposits Ratio – LCY	<97.50	93.98	94.34	●		
18. Advances to Deposits Ratio – FCY	<97.50	95.90	84.76	●		
19. Advances to Deposits + Debentures	<95	90.07	89.64	●		
20. Advances to Stable Funds	<100	94.38	87.69	●		
21. Swaps (USD)	Not to exceed USD 175 Mn.	106.00	110.50	●		
22. External borrowing (LKR)	Not to exceed LKR 40 Bn.	23.81	24.00	●		
Operational risk						
23. Pawning operational losses as a percentage of pawning average capital outstanding	Less than 0.25%	Nil	Nil	●		
24. Cheque returns as a percentage of total cheques in clearing	Less than 3%	3.86	4.29		●	
25. Non-rectified high risk findings (> 90 days) over total high risk audit findings (%)	Zero	1.09	3.13		●	
26. Number of skimming cards and Non-EMV converted POS Transactions (LKR)	Zero	0.46Mn 2 Transactions	Nil		●	

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, portfolios, 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 Credit Standards and Policy Manual outline 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. The Lending Guidelines outline 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.

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.

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 the 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 Internal Credit Committee, 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.

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 nets off collateralised cash deposits against the on balance sheet non-performing advances in the instances where the relevant documentation which is legally binding on 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)	2018 LKR '000	2017 LKR '000
Cash/shares	1,512,409	228,164
Immovable property	13,168,093	8,227,789
Movable assets	1,235,564	806,485
Other securities	3,660,916	1,726,850
Pawned articles	117,520	71,212
Clean	1,458,181	2,422,400
Grand total	21,152,683	13,482,900

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, 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 the 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.

QUALITATIVE DISCLOSURES

DEFINITION OF PAST DUE AND IMPAIRED BASED ON CBSL GUIDELINES

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 both individually and collectively identified loans for the assessment of impairment allowances. These loans also include 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 Expected Credit Loss (ECL) experienced 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.

As per SLFRS 9, calculation of the impairment has been assessed and disclosed based on stage I, II, and III of the portfolio and such disclosures are explained in Note 24.3.1 of Financial Statements.

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 environmental 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.

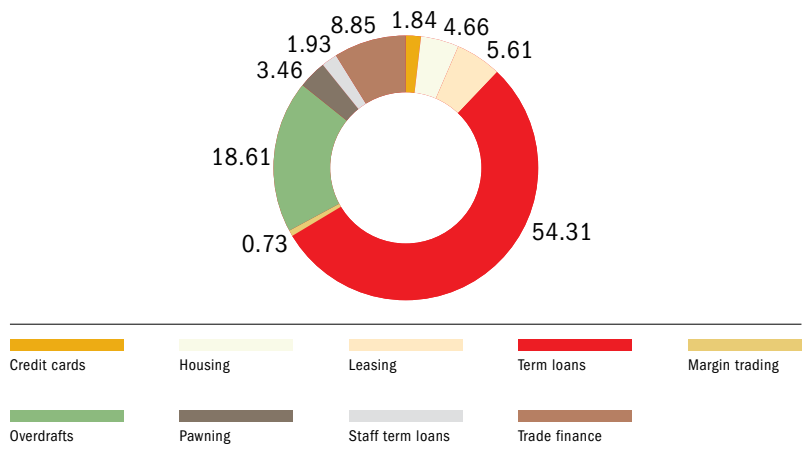
QUANTITATIVE DISCLOSURES

CREDIT EXPOSURE BY PRODUCT TYPES AS AT 31 DECEMBER 2018

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.

PRODUCT WISE CONCENTRATION - 2018

%



	2018 LKR '000	2017 LKR '000
Credit cards	6,180,328	4,886,489
Housing	15,689,526	13,500,139
Leasing	18,904,050	16,222,825
Term loans	182,885,914	144,459,003
Margin trading	2,453,096	2,588,413
Overdrafts	62,688,634	62,788,151
Pawning	11,661,946	10,046,055
Staff term loans	6,497,835	6,108,917
Trade finance	29,813,741	25,869,381
Grand total	336,775,070	286,469,373

AGE ANALYSIS OF NON-PERFORMING LOANS BY PRODUCT DISTRIBUTION (EXCLUDING INTEREST RECEIVABLES) - 31 DECEMBER 2018 BASED ON CBSL DIRECTIONS

Loan category	3-6 months	6-12 months	12-18 months	18 months and above	NPA Grand Total LKR '000
	NPA Special mention LKR '000	NPA Substandard LKR '000	NPA Doubtful LKR '000	NPA Loss LKR '000	
Credit cards	136,518	102,349	75,708	99,666	414,241
Housing	233,459	227,972	107,442	426,696	995,569
Leasing	745,084	165,287	53,635	270,862	1,234,868
Margin trading	-	-	-	1,374	1,374
Overdrafts	1,117,807	805,556	532,366	1,590,524	4,046,253
Pawning	43,344	-	-	47,014	90,358
Staff term loans	14,921	10,160	4,629	17,132	46,842
Term loans	3,461,036	3,777,403	2,267,019	4,569,380	14,074,838
Trade finance	39,714	145,444	20,140	43,042	248,340
Grand total	5,791,883	5,234,171	3,060,939	7,065,690	21,152,683

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 182)
- Details of the collateral types (on page 197)
- Analysis of gross rupee loans and advances by product (Note 24.1.1)
- Analysis of gross foreign currency loans and advances by product (Note 24.1.1)
- Analysis of gross loans and advances by currency (Note 24.1.2)
- Analysis of gross loans and advances by industry-wise (Note 24.1.3)
- An analysis of concentrations of credit risk of loans and advances by geographic locations (page 278)
- Movement in expected credit loss/impairment allowance on loans and advances (Note 24.3)

Amount as at 31 December 2018 (Post-CCF and CRM) (LKR '000)

Risk-weight	0%	20%	50%	60%	75%	100%	150%	>150%	Total credit exposures amount
Claims on banks exposures	-	-	38,000	-	-	5,941,996	-	-	5,979,996
Claims on financial institutions	-	-	19,810,607	-	-	5,760,408	-	-	25,571,015
Claims on corporates	-	-	2,772,081	-	-	148,604,693	308,570	-	151,685,344
Retail claims	-	-	-	36,654,948	53,110,705	11,180,770	-	-	100,946,423
Claims secured by gold	2,469,662	8,286,076	-	-	-	-	-	-	10,755,739
Claims secured by residential property	-	-	17,186,423	-	-	952,406	-	-	18,138,829
Claims secured by commercial real estate	-	-	-	-	-	4,347	-	-	4,347
Non-performing assets (NPAs) (i)	-	-	521,051	-	-	2,364,028	13,737,551	-	16,622,629
Higher-risk categories	-	-	-	-	-	-	-	-	-
Cash items and other assets	7,630,660	203,286	-	-	-	18,959,678	-	-	26,793,624
Total	106,993,932	20,032,829	40,328,162	36,654,948	53,110,705	193,768,326	14,046,122	-	464,935,023

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

MARKET RISK MANAGEMENT MANAGING MARKET RISK

Market Risk is generally defined as the risk of the market value of instruments or investments to increase or decrease as a result of volatility and unpredicted movements in market factors such as exchange rates, interest rates and prices.

At Seylan Bank to manage market risk in a more dynamic manner we have put in place appropriate policies, processes, and structures that link the overall corporate objectives to support ongoing management of market risk.

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 is aligned with the Bank's risk framework and meets regulatory and internal requirements. 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.

RISK MANAGEMENT PRINCIPLES

The diversity of our business model requires us to identify, assess and manage our risk and to allocate capital for the exposures the Bank carries. While business units actively take risk, the following principles underpin our risk management framework:

- Risk taken is within the defined risk appetite
- Every risk taken needs to be approved within the risk management framework
- Risk is continuously monitored and managed.

At Seylan Bank to manage risk we primarily use our Risk Appetite Framework of which the limit framework is a key component. The Management and Board sets portfolio limits for market risk in the trading book. These limits are allocated to our Treasury Division 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.

Our main objective is to accurately measure all types of market risks by a comprehensive set of risk metrics embedding accounting, economic and regulatory considerations. We measure market risks by several internally developed key risk metrics and regulator defined market risk approaches.

Market risk Capital charge was calculated under the standardised approach as at 31 December 2018.

Computation of capital charge for market risk as at 31 December 2018

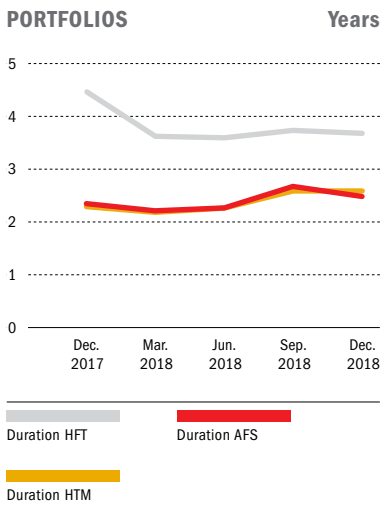
Instrument/item	RWA Amount (LKR'000) as at 31 December 2018
(A) Capital charge for interest rate risk	
General interest rate risk	140,243
(i) Net long or short position	140,243
(ii) Horizontal disallowance	-
(iii) Vertical disallowance	-
(iv) Options	-
Specific interest rate risk	-
(B) Capital charge for equity	
(i) General equity risk	41,378
(ii) Specific equity risk	23,155
(C) Capital charge for foreign exchange and gold	
	18,223
(D) Total capital charge for Market risk (A)+(B)+(C)	
	15,684
Total risk weighted assets on market risk (D)*CAR	
	1,661,516

PORTFOLIO INTEREST RATE RISK

The Government Securities Portfolio comprises one of the main exposures in relation to portfolio interest rate risk. 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.

This helps Treasury cut short losses on a more frequent basis and helps the Management to give necessary direction to Treasury in managing the portfolio interest rate risk.

The following graph represents the weighted average duration of the Government Securities portfolios from 31 December 2017 and 31 December 2018:

WEIGHTED DURATION OF THE GOVERNMENT SECURITIES PORTFOLIOS**INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)**

Interest rate risk in the banking book arises principally from mismatches 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. In most instances the contractual terms of products differ, due to customer behaviours. For these products, assumptions are used on behavioural analysis to allow more accurate and feasible risk management techniques.

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

The analysis is based on the following assumptions:

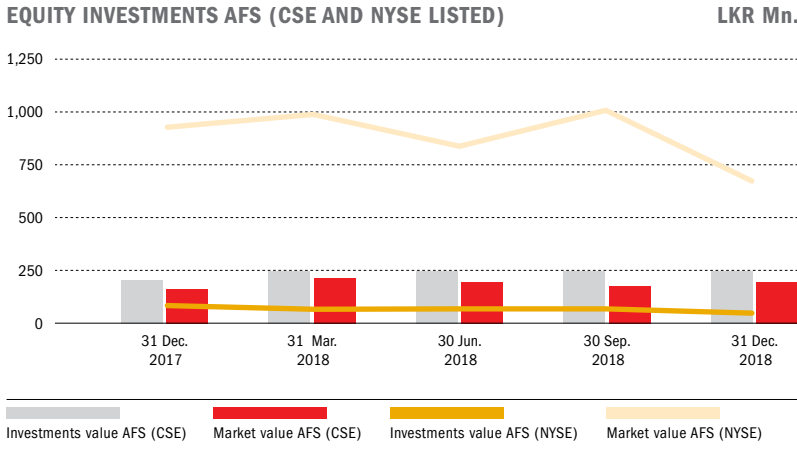
- For a rate increase: interest on savings accounts shall not increase except when rates increase by 250 bps where the savings component will be increased by 75 bps only.
- The interest sensitive assets and liabilities are bucketed on their repricing maturities or failing which on their contractual maturities,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

Change in the net interest income per annum	31 December 2018 LKR '000	31 December 2017 LKR '000
100 bps	+/- 421,618	+/- 289,717
250 bps	+/- 1,074,282	+/- 743,314

EQUITY PRICE RISK

Due to the stagnant outlook of the Colombo Stock Market the Bank disposed all share investments done for trading purposes and retained only the strategic share investments in the AFS book. The Bank maintains a strategic portfolio in the AFS 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 or OCI 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 (CSE listed and NYSE listed) and the behaviour of market values of the equity investment portfolios:



LIQUIDITY RISK MANAGEMENT

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 (ALCO), with Treasury managing the Liquidity and funding needs of the Bank on a daily basis.

Deposits represent the Bank's 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 globally mostly through the funding concentration, including repurchase agreements 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.

FOREIGN EXCHANGE RISK

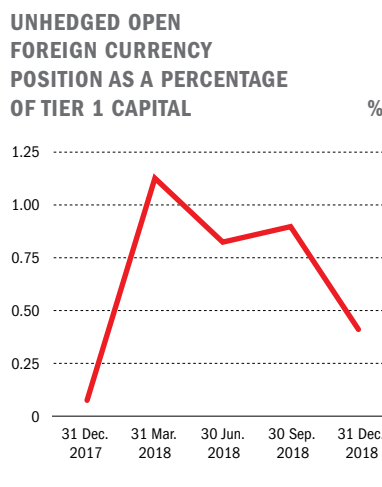
During the year the Sri Lankan Rupee (USD/LKR) reached a record low of 182.82, as investors sold out USD-denominated assets following a credit rating downgrade depreciating the USD/LKR by 19.15% during the year while rating agencies such as Fitch and S&P cutting the Sri Lanka's country rating to B from B+ followed by the third major rating agency, Moody's downgrading Sri Lanka to B2 from B1 and changing the outlook to stable from negative.

FOREIGN EXCHANGE RISK MANAGEMENT

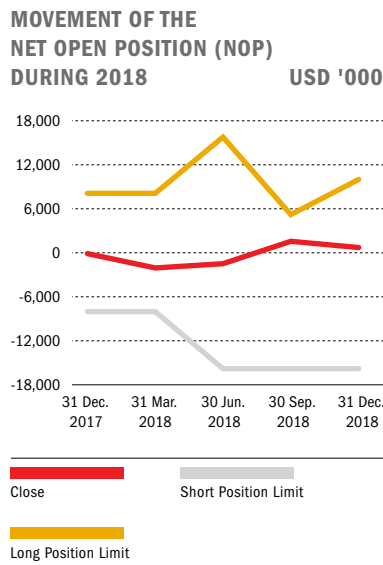
Foreign exchange risk is the potential impact on foreign currency based assets and liabilities or risk to earnings and capital, that arises from adverse movements in foreign exchange rates.

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 prescribed 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 emanating through these exposures.

The following graph presents the NOP as a percentage of the Tier 1 Capital from 31 December 2017 to 31 December 2018:



Net open position movement during the Year is depicted in the following graph:



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 the CBSL and against prudential (tolerance) limits set for different residual maturity time buckets.

THE MATURITY GAP BASED ON BEHAVIOURAL ANALYSIS IS DEPICTED IN THE FOLLOWING TABLES:

	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Amount (LKR '000)
						Total as at 31 December 2018
Assets						
Interest earning assets						
Loans and advances	93,811,392	69,385,853	73,379,060	41,595,689	48,710,544	326,882,538
Placements with banks and finance companies	-	-	-	-	-	-
Government of Sri Lanka treasury bills/bonds and development bonds	7,346,010	10,530,817	25,091,662	34,209,670	8,112,053	85,290,212
Investments in debentures	-	135,719	69,296	-	665,000	870,015
Securities purchased under resale agreements	5,457,206	4,961	-	-	-	5,462,167
	106,614,608	80,057,350	98,540,018	75,805,359	57,487,597	418,504,932
Non-interest earning assets						
Cash in hand	7,629,162	-	-	-	-	7,629,162
Balances with Central Bank of Sri Lanka	3,607,983	4,199,815	3,963,162	2,495,819	4,205,496	18,472,275
Balances with banks	4,944,449	-	-	-	-	4,944,449
Investments in equities	-	1,660,158	-	-	1,153,602	2,813,760
Group balances receivable	-	40,600	-	-	-	40,600
Property, plant and equipment/ leasehold rights/intangible assets	-	-	-	-	4,354,096	4,354,096
Assets held-for-sale	-	-	-	-	-	-
Deferred tax assets	270,275	-	-	-	-	270,275
Derivative financial instruments	929,776	747,182	-	-	-	1,676,958
Other assets	8,224,827	37	2	71	1,574	8,226,511
	25,606,472	6,647,792	3,963,164	2,495,890	9,714,768	48,428,086
Total assets	132,221,080	86,705,142	102,503,182	78,301,249	67,202,365	466,933,018
Liabilities and Equity						
Interest bearing liabilities						
Financial liabilities at amortised cost due to depositors	66,883,989	69,234,236	72,681,852	45,771,715	80,617,888	335,189,680
Financial liabilities at amortised cost due to debt securities holders	20,657,491	437,034	-	-	-	21,094,525
Due to banks and other borrowings	7,744,075	2,715,525	2,282,449	13,668,750	-	26,410,799
Debt securities issued	513,994	1,875,366	4,430,290	7,185,750	2,324,000	16,329,400
Group balances payable	98,598	-	-	100,000	-	198,598
	95,898,147	74,262,161	79,394,591	66,726,215	82,941,888	399,223,002

	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Amount (LKR '000)	
						Total as at 31 December 2018	
Non-interest bearing liabilities							
Demand deposits	22,370,507	-	-	-	-	22,370,507	
Other liabilities	9,317,061	-	-	-	-	9,317,061	
Derivative financial instruments	145,339	-	-	-	-	145,339	
Current tax liabilities	1,209,464	-	-	-	-	1,209,464	
Dividend payable	44,758	-	-	-	-	44,758	
Group balances payable	13,088	-	-	-	-	13,088	
Equity	-	-	-	-	34,609,799	34,609,799	
	33,100,217	-	-	-	34,609,799	67,710,016	
Total liabilities and equity	128,998,364	74,262,161	79,394,591	66,726,215	117,551,687	466,933,018	

CURRENCY-WISE MATURITY GAP REPORTS OF THE MAIN CURRENCY EXPOSURES (USD, GBP AND EUR)

Bucket Type	Bucket	Currency	Asset '000	Liability '000	Mismatch '000	Cumulative gap USD '000	As a % of total liabilities	(-/+ mismatch limits %
Regulatory – Liquidity	RL: < 1M	USD	92,435	111,871	-19,436	-19,436	-4.82%	20%
	RL: 1M-3M		113,918	83,521	30,397	10,961	2.72%	20%
	RL: 3M-6M		38,490	28,778	9,712	20,673	5.13%	20%
	RL: 6M-12M		30,693	69,502	-38,809	-18,136	-4.50%	30%
	RL: 1Y-3Y		63,914	13,284	50,630	32,494	8.06%	20%
	RL: 3Y-5Y		50,503	76,886	-26,383	6,111	1.52%	20%
	RL: 5Y-10Y		11,021	1	11,020	17,131	4.25%	10%
	RL: > 10Y		2,792	19,354	-16,562	569	0.14%	10%
	Exposure		403,766	403,197	569			

Bucket type	Bucket	Currency	Asset '000	Liability '000	Mismatch '000	Cumulative Gap GBP 000'	As a % of total liabilities	(-) Mismatch limits %
Regulatory – Liquidity	RL: < 1M	GBP	7,668	2,539	5,129	5,129	33.50%	20.00%
	RL: 1M-3M		6,995	3,148	3,847	8,976	58.63%	20.00%
	RL: 3M-6M		45	2,017	-1,972	7,004	45.75%	20.00%
	RL: 6M-12M		90	7,511	-7,421	-417	-2.72%	30.00%
	RL: 1Y-3Y		295	26	269	-148	-0.97%	20.00%
	RL: 3Y-5Y		102	0	102	-46	-0.30%	20.00%
	RL: 5Y-10Y		72	0	72	26	0.17%	10.00%
	RL: > 10Y		55	68	-13	13	0.08%	10.00%
	Exposure		15,322	15,309	13			

Bucket Type	Bucket	Currency	Asset '000	Liability '000	Mismatch '000	Cumulative Gap EUR 000'	As a % of Total Liabilities	(-) Mismatch Limits %
Regulatory – Liquidity	RL: < 1M	EUR	3,876	1,173	2,703	2,703	23.95%	20.00%
	RL: 1M-3M		7,263	5,695	1,568	4,271	37.84%	20.00%
	RL: 3M-6M		0	466	-466	3,805	33.71%	20.00%
	RL: 6M-12M		0	3,772	-3,772	33	0.29%	30.00%
	RL: 1Y-3Y		0	25	-25	8	0.07%	20.00%
	RL: > 10Y		157	157	0	8	0.07%	10.00%
	Exposure		11,296	11,288	8			

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 short-term liquidity stress.

Our LCR of 92.15% as of 31 December 2018 has been calculated in accordance with the regulatory guidelines with regard to the LCR.

LCR COMPONENTS

	Liquidity value (LKR Mn.)	
	31 December 2018	31 December 2017
High quality liquid assets	54,800	56,261
Gross outflows	86,307	68,382
Gross inflows	26,839	22,243
Net outflows	59,468	46,139
LCR Ratio (%)	92.15	121.94

BASEL III COMPUTATION OF LIQUIDITY COVERAGE RATIO

Item

Item	Amount (LKR '000)					
	Reporting period - 31 December 2018			Previous reporting period - 31 December 2017		
	Total un-weighted value	Factor (%)	Total weighted value	Total un-weighted value	Factor (%)	Total weighted value
Total stock of High-Quality Liquid Assets (HQLA)	-	-	54,800,053	-	-	56,261,229
Total adjusted level 1A assets	55,294,220	-	55,294,220	56,553,893	-	56,553,893
Level 1A assets	54,673,046	100	54,673,046	56,157,004	100	56,157,004
Total adjusted Level 2A assets	-	-	-	-	-	-
Level 2A assets	-	-	-	-	-	-
Total adjusted Level 2B assets	-	-	127,007	-	-	104,225
Level 2B assets	254,014	50	127,007	208,450	50	104,225
Total cash outflows	-	-	86,307,265	-	-	68,381,552
Deposits	272,105,628	10	27,210,563	241,876,890	10	24,187,689
Unsecured wholesale funding	77,731,112	25-100	42,931,261	58,961,390	25-100	28,263,268
Secured funding transactions	-	-	-	-	-	-
Undrawn portion of committed (Irrevocable) facilities and other contingent funding obligations	125,389,257	0-100	7,309,085	96,478,724	0-100	6,773,396
Additional requirements	8,856,356	100	8,856,356	9,157,199	100	9,157,199
Total cash inflows	-	-	26,838,579	-	-	22,242,860
Maturing secured lending transactions backed by collateral	-	-	-	-	-	-
Committed facilities	-	0	-	3,719	0	-
Other inflows by counterparty which are maturing within 30 days	49,351,190	50	24,675,595	40,923,442	50	20,461,721
Operational deposits	5,087,053	-	-	1,159,518	-	-
Other cash inflows	3,060,650	50-100	2,162,984	3,562,278	50-100	1,781,139
Liquidity coverage ratio (%) (stock of high quality liquid assets/total net cash outflows over the next 30 calendar days)*100	-	-	92.15	-	-	121.94

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, models or portfolios. 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 tests are generally carried out by applying static balance sheet assumptions either at a close of a month, quarter or the end of a financial year or on ad hoc basis.

The result of the stress tests 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.

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 under this portfolio are disclosed in Note. 23 to the Financial Statements as “financial assets measured at fair value through profit and loss (FVTPL)/ held for trading”
- Non-trading portfolios comprise positions that are held for liquidity and asset and liability management. The financial assets under non-trading portfolios are disclosed in Notes 25 and 26 to the Financial Statements as “financial assets at amortised

cost – debt and other instruments” and “financial assets measured at fair value through other comprehensive income (FVOCI)/available for sale”

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 the utilisation of each counterparty on a real time basis; against the stipulated limit and daily reporting is carried out to appraise the Senior Management of any irregularities in the limits.

COUNTRY RISK CONCENTRATION

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 embargos. 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 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.

Thus it is no longer appropriate to permit the management of Operational Risks only to the individual departments as it is likely to occur in all activities of business and may lead to both financial and non-financial losses.

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.

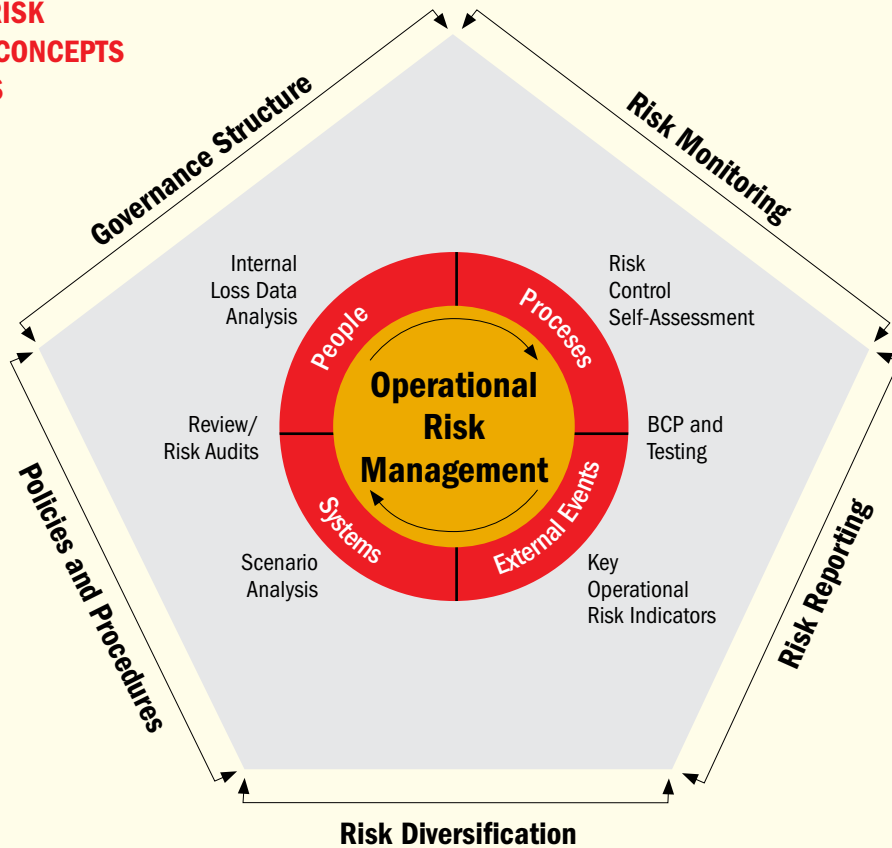
The objective of the Operational Risk Management (ORM) division is to establish sound control practices to increase the effectiveness of the Bank's resources and minimise Operational losses. It has developed comprehensive practices under the following policies and techniques to assist in identifying,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

- Operational Risk Management
- Corporate Information Security
- Business Continuity Management
- Incidents and Near-Miss events Management
- Fraud Risk Management
- Insurance Governance
- Business Process Outsourcing
- Risk Control Self-Assessment (RCSA)
- Internal Loss Data Analysis (ILDA)
- Key Operational Risk Indicators (KORI)

The Operational Risk management function is enabled through day-to-day management within a predefined framework. The Head of Operational Risk unit 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:

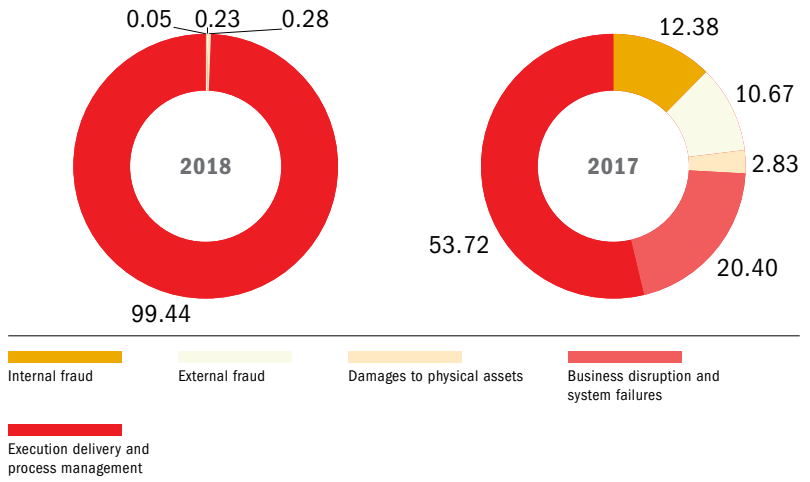
Technique	Management/Mitigation
Risk Control Self-Assessment (RCSA)	Centralised key business units/branches of the Bank carry out RCSA at least on an annual basis for their business processes to identify the inherent risks proactively. RCSA requires the documentation of risks, identifying the levels of risk (derived from an estimate of frequency and impact) and controls associated with each process conducted by the organisation. Controls and mitigants that adequately counteract the risks are introduced thereby minimising the probability and impact. Findings from the RCSA exercise are used to manage the residual risks through implementation of proper action plans and control improvements.
Collecting and analysing Internal Loss Data (ILD), Incident and Near-Miss events data collection	<p>ILDs are classified into seven loss types as per Basel guidelines and into four broad business lines such as Trading and Sales, Payment and 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.</p> <p>The major contributors to Operational losses are attributed to execution, delivery and process management. 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.</p> <p>Further the Operational losses incurred in year 2018 are reported under mainly the trading & sales business lines and the charts on page 153 exhibit the operational losses incurred for the past two years with the drill down of the same:</p>

Technique

Management/Mitigation

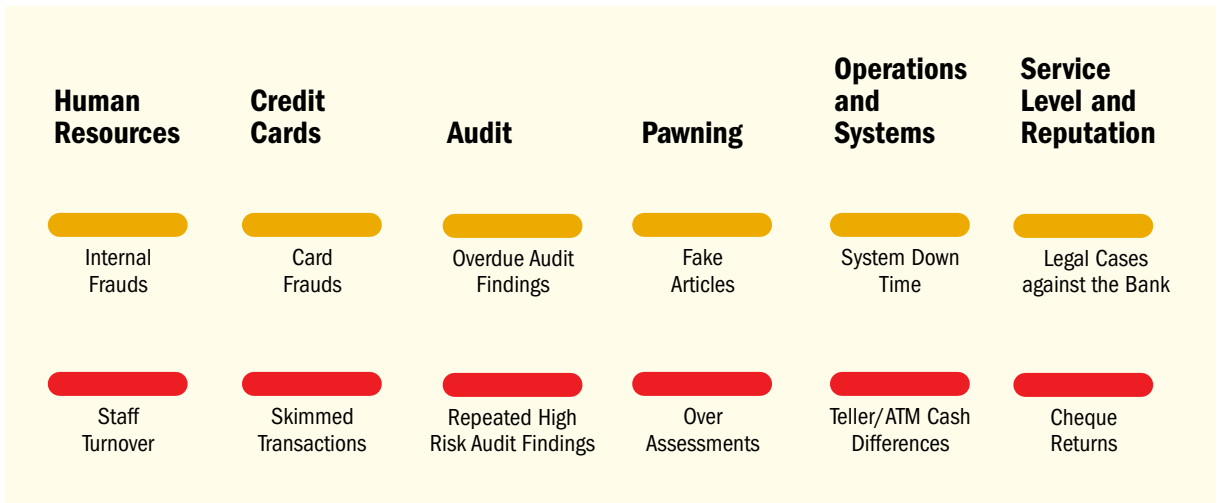
OPERATIONAL LOSS

%



Establishing and reviewing Key Operational Risk Indicators (KORI)

Key Operational Risk Indicators (KORIs) are an important tool within risk management and are used to enhance the monitoring and mitigation of risks and facilitate risk reporting. KORIs enable risk managers to identify potential losses before they happen. 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.



Reviewing information risk, integrity and availability

The Bank is in a 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 introduced sound Data Leakage Prevention (DLP) solution and Web Application Firewall system. Further, the Bank has upgraded the existing Firewall technology to latest next generation Firewall and revamped the existing Network Infrastructure.

Effectiveness of business continuity and disaster recovery plans (BCP)

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 human safety, business operations as well as profitability and reputation of the Bank. The 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.

Technique	Management/Mitigation
Insurance arrangements	The 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 ups, employee infidelity etc. However, Insurance has not been used for taking upon risks that would otherwise not be undertaken thereby avoiding moral hazards. This Policy will be reviewed and further enhanced on an on-going basis. The Bank has engaged an insurance broker to source terms, evaluate and value add using their expertise.
Reviewing new products/processes	The Bank was able to provide risk assurance for the newly-implemented products through the Product Management Policy. This procedure includes the proactive risk identification, assessment and introduced mitigation controls for risks inherent to new products, processes, systems and their amended versions as well as to projects that have a material impact on the Bank's operations.

OPERATIONAL RISK DISCLOSURES

OPERATIONAL RISK MITIGATION TECHNIQUES

- (a) Comprehensive policies have been obtained to cover Operational lapses which may occur as a result of events 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 infidelity etc. However, insurance has not been used for taking upon risks that would otherwise not be undertaken thereby avoiding moral hazards. The insurance policy is reviewed annually and further enhanced on an on-going basis. The Bank has engaged an insurance broker to source terms, evaluate and value add using their expertise.
- (b) Bank uses a set of key control mechanisms to monitor and control its operational risk. These are monitored through Key Operational Risk Indicators (KORIs) 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.

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 attributed 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.

Business Lines	Gross Income		
	2018 LKR '000	2017 LKR '000	2016 LKR '000
Gross income	23,070,781	20,567,266	17,721,268
Capital charge for operational risk (15%)	3,067,966		
Risk-Weighted Amount for operational risk	25,835,501		

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 for 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:

- Card recoveries
- Handling of inbound and outbound calls
- Travel Card hosted platform
- Acquiring of Internet Payment Gateway transactions
- Printing and handing over notices to General Post Office
- Cash transport
- Cash sorting
- Printing of cheque return notifications
- Storing of archive boxes.
- Maintenance of corporate website

- Providing integrated Data Center facility for IT Disaster Recovery
- Recovery of written-down and written-off advances
- Register functions for debenture issues

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 which is fully implemented. This covers all aspects of due diligence controls such as comprehensive assessment, complaint handling, service quality monitoring and review of information security and business continuity plans of service providers.

CAPITAL

The Bank complied with the Capital requirements under Basel III guidelines 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.

BASEL III COMPUTATION OF CAPITAL RATIOS

Item	Amount (LKR '000)	
	Reporting period 31 December 2018	Previous reporting period 31 December 2017
Common Equity Tier 1 (CET 1) capital after adjustments	33,486,749	30,686,859
Common Equity Tier 1 (CET 1) capital	34,442,303	32,204,715
Equity capital (stated capital)/assigned capital	12,025,795	11,228,269
Reserve fund	1,768,944	1,609,484
Published retained earnings/(accumulated retained losses)	19,673,566	17,020,748
Published accumulated Other Comprehensive Income (OCI)	(1,055,427)	343,969
General and other disclosed reserves	2,029,424	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	955,554	1,517,856
Goodwill (net)	-	-
Intangible assets (net)	576,091	363,451
Others	379,463	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	10,195,799	5,764,305
Total Tier 2 capital	10,195,799	5,808,825
Qualifying Tier 2 capital instruments	9,802,650	5,227,575
Revaluation gains	393,149	581,250
Loan loss provisions	-	-

Item	Amount (LKR '000)	
	Reporting period 31 December 2018	Previous reporting period 31 December 2017
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 (specify)	-	44,520
Total Tier 1 capital	33,486,749	30,686,859
Total capital	43,682,547	36,451,164

CET 1 capital increased during the year primarily due to 2018 profits.

Item	Amount (LKR '000)	
	Reporting period 31 December 2018	Previous reporting period 31 December 2017
Total risk Weighted Assets (RWA)	328,331,166	275,070,097
RWAs for credit risk	300,834,151	249,965,714
RWAs for market risk	1,661,514	1,027,022
RWAs for operational risk	25,835,501	24,077,361
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	10.20	11.16
of which: capital conservation buffer (%)	1.875	1.25
Total Tier 1 capital ratio (%)	10.20	11.16
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	13.30	13.25
of which: capital conservation buffer (%)	1.875	1.25

RISK-WEIGHTED ASSETS (RWAs)

The RWAs increased in 2018 primarily due to growth in loans and advances of the Bank.

COMPUTATION OF LEVERAGE RATIO

Item	Amount (LKR '000)	
	Reporting period 31 December 2018	Previous Reporting period 31 December 2017
Tier 1 capital	33,486,749	30,686,859
Total exposures	464,935,022	397,985,784
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	440,269,815	377,102,177
Derivative exposures	-	-
Securities financing transaction exposures	-	-
Other off-balance sheet exposures	24,665,207	20,883,607
Basel III leverage ratio (%) (Tier 1/total exposure)	7.20	7.71

KEY REGULATORY RATIOS – CAPITAL AND LIQUIDITY

Item	Minimum requirement		Reporting period 31 December 2018	Previous reporting period 31 December 2017
	2018	2017		
Regulatory capital				
Common equity Tier 1 (LKR '000)			33,486,749	30,686,859
Tier 1 capital (LKR '000)			33,486,749	30,686,859
Total capital (LKR '000)			43,682,547	36,451,164
Regulatory capital ratios				
Common equity Tier 1 capital ratio (%)	6.375	5.750	10.20	11.16
Tier 1 capital ratio (%)	7.875	7.250	10.20	11.16
Total capital ratio (%)	11.875	11.250	13.30	13.25
Leverage ratio* (%)	3.00	3.00	7.20	7.71
Net stable funding ratio* (%)	90	-	110.00	-
Regulatory liquidity				
Statutory liquid assets				
Domestic Banking Unit (LKR '000)			80,722,525	77,783,808
Off-shore Banking Unit (USD '000)			31,468	41,711
Statutory liquid assets ratio				
Domestic Banking Unit (%)	20	20	21.44	23.57
Off-shore Banking Unit (%)	20	20	22.08	37.08
Liquidity coverage ratio – LKR (%)	90	80	128.76	160.30
Liquidity coverage ratio – All currency (%)	90	80	92.15	121.94

* Implementation date for regulatory reporting will be with effect from 1 January 2019.

CURRENT AND FUTURE CAPITAL REQUIREMENTS**CAPITAL PLANNING****OVERVIEW AND ASSESSMENT PROCESS**

The capital structure of banks is rigorously regulated by the 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 may 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 Bank was well capitalised, with a Total Capital Adequacy Ratio of 13.30% and a Tier 1 capital ratio of 10.20%, in excess of the mandatory regulatory requirements of the Basel III Tier 1 ratio of 7.875%, and total capital ratio of 11.875%.

Overall, the Statement of Financial Position remains strong.

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 the 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: SEYLAN 2020**

- The Bank devised a four-year Strategic Plan in 2017, establishing targets across business segments. The business plan has been developed to double the Banking book during these 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 the 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's 2017-2020 strategic plan. A capital augmentation plan is prepared quarterly forecasting the capital requirement of the Bank during this 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 3 Bn. debenture issue (with an option to further increase the issue size by LKR 2 Bn.) will be raised as Tier 2 capital during the first quarter of 2019.

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 assets less than LKR 500 Bn. is given below. The Bank's position as at 31 December 2018 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.

However, the Bank acknowledges the challenges associated with increasing demand on capital as per the roadmap given by the 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 lesser capital 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 Board and Senior Management critically review the strategic direction of the Bank at the time the Strategic Plan is prepared and approved. Risk management is an integral part of the strategic planning process.

	Bank's position as at 31 December 2018	Minimum capital ratio prescribed by CBSL by 31 December 2018 Assets < LKR 500 Bn.	Minimum capital ratio prescribed by CBSL by 1 January 2019 Assets < LKR 500 Bn.	Minimum capital ratio prescribed by CBSL by 1 January 2019 Assets > LKR 500 Bn.
	%	%	%	%
Common equity				
Tier 1 including capital conservation buffer	10.20	6.375	7.00	8.50
Total Tier 1 including capital conservation buffer	10.20	7.875	8.50	10.00
Total capital ratio including capital conservation buffer	13.30	11.875	12.50	14.00

Bank expects to reach its assets base above LKR 500 Bn. by Q2 of 2019.

THE BANK USES ORDINARY VOTING, ORDINARY NON-VOTING SHARES AND DEBENTURES AS MAIN INSTRUMENTS TO RAISE CAPITAL. MAIN FEATURES OF INSTRUMENTS USED AS PART OF REGULATORY CAPITAL ARE GIVEN BELOW:

Description of the capital instrument	Ordinary voting shares	Ordinary non-voting shares	Debenture issue - 2016 (5 years and 7 years)	Debenture Issue - 2018 (5 years, 7 years and 10 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)	LK0182N00002	LK0182X00001	LK0182023559 LK0182023567 LK0182023542	LK0182023955 LK0182023963 LK0182023971
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	15 July 2016	29 March 2018
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	15 July 2021	29 March 2023
Amount recognised in regulatory capital (in LKR '000 as at the reporting date)	7,723,207	4,302,588	4,155,150	5,647,500
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 recommended by the Board annually	Dividend as recommended by the Board annually	Fixed and floating interest rates	Fixed interest rates
Coupon rate and any related index	N/A	N/A	2016-2021 – Semi-annual interest – 13% p.a. 2016-2021 – Floating rate 6 months T-Bill (gross) +1.50% 2016-2023 – Semi-annual interest – 13.75% p.a.	2018-2023 – Semi-annual interest – 12.85% p.a. 2018-2025 – Semi-annual interest – 13.20% p.a. 2018-2028 – Semi-annual interest – 13.50% p.a.
Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Convertible

LEGAL RISK

Legal risk arises from failure to comply with statutory and regulatory requirements, 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 is 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 and the Related Party Transactions Review 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.

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 enhance 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 solved 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 2018 AND OUTLOOK FOR 2019

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. Assigning Regional Risk Officers to clustered SME Hubs and the setting up of SME Hubs on a regional basis with the objective of improving quality of credit evaluation and improving efficiency and reducing turnaround time (TAT) for SME credit approvals.
3. The lending guidelines were revised twice (1st half and 2nd half) during the year. In line with the business requirements, number of industries covered in the Risk Appetite statement has been increased. The revision of lending guidelines for 1H-2019 is underway and more industry segments will be included as per the needs of the business lines.
4. High value reviews covering LKR 89.663 Bn. (32% of performing advances as at 31 December 2017) were done in the year 2018.
5. Rigorous monitoring of non-performing advances by the Executive Credit Risk Management Committee has enabled to control the rising NPA ratio.
6. Several training programmes were internally designed and conducted to improve the risk analysing ability of the staff of business units.
7. Used data analytics to identify credit default behaviours in the product portfolio.
8. The GAP analysis done by KPMG to assess the Bank's readiness to move to the Internal Rating Based (IRB) approach was completed in 2018. The implementation plan is being discussed with KPMG India to move towards IRB approach within the next few years.
9. In line with the KPMG implementation plan the credit rating system will also be aligned to facilitate risk based pricing system in 2019.
10. The Bank plans to implement an Operational Risk Management system across the branch network, thereby being able to track and monitor all incidents relating to operational Risk. The system will also include the Standardised Approach and the Advanced Management Approaches under Basel II/III and future norms, enabling the Bank to conserve and manage Capital to an optimal level.
11. The Bank upgraded the ALM and Value at Risk Systems enabling the Bank to manage and monitor risk in a more robust and prudent manner, thus supporting the Bank in developing a steadfast risk appetite and risk management strategy for the areas of IRR, liquidity risk and market risk, with the impact of stress testing scenarios.
12. Enhancing and upgrading the Market Risk System will help the Bank to measure and monitor the regulatory capital calculation through the internal models-approach (IMA).

13. The Bank has awarded to KPMG India the validation of market risk models and to conduct a gap study to assess the Bank's readiness to move to the IMA approach. The assignment is expected to commence and conclude during the second quarter of 2019.
14. Bank has introduced sound Data Leakage Prevention (DLP) solution and Web Application Firewall system. Further, Bank has upgraded the existing Firewall technology to latest next generation Firewall and revamped the existing Network Infrastructure.

DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

Item	Amount (LKR '000) as at 31 December 2018				
	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	466,933,018	473,338,941	473,338,941	3,930,808	576,091
Cash and cash equivalents	12,573,611	12,904,617	12,904,617	-	-
Balances with Central Bank	18,472,275	18,472,275	18,472,275	-	-
Placements with banks	-	-	-	-	-
Derivative financial instruments	1,676,958	-	-	-	-
Financial assets recognised through profit or loss/held for trading					
- Measured at fair value	4,918,336	4,820,503	4,820,503	3,061,557	-
- Designated at fair value	-	-	-	-	-
Financial assets at amortised cost/ held to maturity					
- Loans and advances	326,882,538	331,692,906	331,692,906	-	-
- Debt and other instruments	29,593,496	80,847,862	80,847,862	-	-
Financial assets measured at fair value through other comprehensive income/available for sale	58,770,720	-	-	869,251	-
Investment in subsidiary	1,153,602	1,153,602	1,153,602	-	-
Property, plant and equipment	3,778,005	3,778,005	3,778,005	-	-
Investment properties	-	-	-	-	-
Intangible assets	576,091	576,091	576,091	-	576,091
Deferred tax assets	270,275	-	-	-	-
Other assets	8,267,111	19,093,080	19,093,080	-	-
Liabilities	432,323,219	-	-	-	-
Due to banks	26,378,781	-	-	-	-
Derivative financial instruments	145,339	-	-	-	-
Financial liabilities at amortised cost					
- Due to depositors	357,560,187	-	-	-	-
- Due to debt securities holders	21,094,525	-	-	-	-
- Due to other borrowers	32,018	-	-	-	-
Debt securities issued	16,329,400	-	-	-	-
Current tax liabilities	1,209,464	-	-	-	-
Deferred tax liabilities	-	-	-	-	-
Other liabilities	9,361,819	-	-	-	-
Due to subsidiaries	211,686	-	-	-	-
Off-balance sheet liabilities	129,435,200	178,664,925	166,433,715	-	-
Guarantees	30,677,415	30,677,415	27,264,423	-	-
Performance bonds	-	-	-	-	-
Letters of credit	524,454	10,335,776	9,595,062	-	-
Foreign exchange contracts	1,265,318	51,188,020	51,188,020	-	-
Other contingent items	23,680,443	13,869,122	5,791,618	-	-
Undrawn loan commitments	72,594,592	72,594,592	72,594,592	-	-

Item	Amount (LKR '000) as at 31 December 2018				
	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
Other commitments	692,978				
Shareholders' equity					
Equity capital (stated capital)/assigned capital	12,025,795	12,025,795			
Of which amount eligible for CET1	2,785,357	5,240,510			
Of which amount eligible for AT1		-			
Retained earnings	19,798,647	19,798,647			
Accumulated other comprehensive income		-			
Other reserves		-			
Total shareholders' equity	34,609,799	37,064,952	-	-	-

Column a. presents the assets, liabilities and equity on standalone SLFRS basis. Pillar III disclosures at 31 December 2018 are presented in accordance with regulatory capital concepts and rules.

A. EXPLANATIONS OF DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY EXPOSURE AMOUNTS

(Total assets shown in columns a and b above)	LKR '000
Total assets as per carrying values reported in published Financial Statements (Column a)	466,933,018
Total assets as per carrying values under scope of regulatory reporting (Column b)	473,338,941
Difference	6,405,923

Difference arises due to expected credit loss on loans and advances with adoption of SLFRS 9, fair value adjustments on investments and the classification changes of the line items.

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 the CBSL
Treasury Bonds	Price formula	Based on market yield published by the 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 framework, the valuation models used by the Bank and fair value hierarchy are disclosed in Note 6 to the Financial Statements.

SUSTAINABLE RESULTS

Financial Calendar	164
Statement of Directors' Responsibility for Financial Reporting	165
Chief Executive Officer's and Chief Financial Officer's Responsibility Statement	166
Independent Auditors' Report	167
Income Statement	171
Statement of Profit or Loss and Other Comprehensive Income	172
Statement of Financial Position	173
Statement of Changes in Equity	174
Cash Flow Statement	178
Notes to the Financial Statements	180

FINANCIAL CALENDAR

FINANCIAL CALENDAR – 2018

	Released to the Colombo Stock Exchange (CSE)	Published in the newspapers
Interim Financial Statements (Audited) for the 4th Quarter/Year ended 31 December 2017	19 February 2018	7 March 2018
Final Audited Financial Statements for the year ended 31 December 2017 and Annual Report – 2017	5 March 2018; Circulated to the shareholders – before 6 March 2018 and to the debenture holders in mid-March 2018	
1st Quarter/Three months ended 31 March 2018	1 May 2018	10 May 2018
2nd Quarter/Six months ended 30 June 2018	26 July 2018	3 August 2018
3rd Quarter/Nine months ended 30 September 2018	26 October 2018	2 November 2018
31st Annual General Meeting Held on Thursday, 29 March 2018 at Samudra Ballroom, Taj Samudra Hotel, No. 25, Galle Face Centre Road, Colombo 3		
First and final ordinary dividend for the year ended 31 December 2017 Cash dividend paid and scrip dividend issued on 29 March 2018		

PROPOSED FINANCIAL CALENDAR – 2019

		Proposed date
Interim Financial Statements (Audited) for the 4th Quarter/Year ended 31 December 2018	To be released to the Colombo Stock Exchange (CSE)	On or before 13 March 2019
Final Audited Financial Statements for the year ended 31 December 2018 and Annual Report – 2018	<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 28 March 2019 Mid-March 2019
32nd Annual General Meeting (AGM)	Scheduled to be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 1	On Thursday, 28 March 2019
First and final ordinary dividend for the year ended 31 December 2018	Payable subject to the approval of the shareholders at the AGM	On or before 8 April 2019
Interim (unaudited or audited) Financial Statements	Statements in respect of the four quarters of 2019 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 171 to 266 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 2018;
- the Financial Statements for the year ended 31 December 2018 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 published by The Institute of Chartered Accountants of Sri Lanka (ICASL);
- in preparing the Financial Statements for the year ended 31 December 2018 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 18 February 2019.

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 pages 167 to 170 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 (ICASL) and in compliance with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 (as amended)

is published on pages 123 and 124 and Bank's Independent Auditors' Report on our assessment of Bank's internal controls over financial reporting is published on page 125 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

18 February 2019
Colombo

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of Seylan Bank and the Group for the year ended 31 December 2018 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 Bank initially adopted SLFRS 9 – “Financial Instruments” and SLFRS 15 – “Revenue from Contracts” with Customers from 1 January 2018. As permitted by the transitional provisions, the impact of adopting SLFRS 9 is recognised as an adjustment to the equity on 1 January 2018 without restating the comparative information.

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.

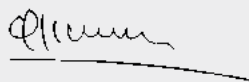
The Audit Committee pre-approves the audit and non-audit services provided by Messrs KPMG in order to ensure that the provision of such services does not impair Messrs KPMG's independence.

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 48 of the Financial Statements in this Annual Report.



Kapila Ariyaratne
Director/Chief Executive Officer



Ms Champika Dodanwela
Chief Financial Officer

18 February 2019

INDEPENDENT AUDITORS' REPORT



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
: +94 - 11 244 6058
Internet : www.kpmg.com/lk

TO THE SHAREHOLDERS OF SEYLAN BANK PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the Financial Statements of Seylan Bank PLC ("the Company") and the Consolidated Financial Statements of the Company and its subsidiary ("the Group"), which comprise the Statement of Financial Position as at 31 December 2018, and the Statement of Profit or Loss and other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies set out on pages 171 to 266.

In our opinion, the accompanying Financial Statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2018,

and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Company Financial Statements and the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Company Financial Statements and the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



IMPAIRMENT OF LOANS AND ADVANCES AND TRANSITION WITH THE ADOPTION OF SLFRS 9 – “FINANCIAL INSTRUMENTS”

Refer to the accounting policies in “Note 5.4.5 (A) to the Financial Statements: Impairment”, “Note 3 to the Financial Statements: Use of estimates and judgements”, “explanatory Note 24 to the Financial Statements: Loans and Advances” and “Note 56 to the Financial Statements: Impact on adopting SLFRS 9 – Financial Instruments”.

Risk description

As disclosed in Note 24 to the Financial Statements, the Bank has recorded LKR 336,775,070,000 and LKR 9,892,532,000 as at 31 December 2018 as customer loans and advances and expected credit losses respectively. Further, as permitted by the transitional provision of SLFRS 9, the impact of initially adopting SLFRS 9 is considered as an adjustment to equity as at 1 January 2018, without restating the comparative information. The Note 56 to the Financial Statement provides impact on transition of SLFRS 9 - “Financial Instruments” on fair value through other comprehensive reserve and retained earnings as at 1 January 2018.

SLFRS 9 “Financial Instruments” introduces an expected credit loss (ECL) model which takes into account judgements in setting the assumptions such as forward looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgements over the use of data inputs required.

The Group has applied revised processes, systems and controls that have not been subject to testing previously for the calculation of expected credit loss impairment allowance and assessed the relevance and reliability of data used for ECL measurement.

The Group has applied new accounting policies, including transition option elections and practical expedients with the application of new significant judgements and estimates which are subject to estimation uncertainty and management bias.

Impairment of loans and advances to customers are considered to be a key audit matter owing to the significance of loans and advances, the high degree of complexity and judgement applied in determining the provisions and the judgement used by us in challenging those estimates. Further, transition to SLFRS 9 is considered to be a key audit matter as the Group has applied new processes, data and controls that have not been subject to testing previously which includes complex accounting requirements underlying the determination of adjustments on transition.

Our responses

Our audit procedures to assess impairment of loans and advances to customers included the following:

- Assessment of the methodology inherent within the models against the requirements of SLFRS 9;
- Challenging the key assumptions in the ECL models, including staging, PD and LGD and evaluating the reasonableness of Management’s key judgements and estimates with the assistance of financial risk management specialist;
- Testing the accuracy and completeness of the data inputs by testing reconciliations between source systems and the ECL models and assessment of economic information used within, and weightings applied to, forward looking scenarios;
- Recalculation of ECL for a sample using the key assumptions used in the models, such as PD and LGD;
- Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development;
- Assessing the disclosures in the Consolidated Financial Statements in relation to impairment of loans and advances to customers with reference to the requirements of SLFRS 9.

Our audit procedures for transition to the SLFRS 9 included the following:

- Assessing the design, implementation and operating effectiveness of key internal controls over the transition adjustments and new processes, data and controls that have not been subject to testing previously;
- Evaluating management’s process for identifying contracts to be assessed based on the selected transition approach and any practical expedients applied;
- Evaluating the appropriateness of the accounting policies based on the requirements of the new accounting standards, our business understanding and industry practice;
- Understanding the transition approach and practical expedients applied and assessing whether transition gives rise to any specific fraud risks;
- Challenging the key assumptions and evaluating the reasonableness of management’s key judgements and estimates made in preparing the transition adjustments;
- Assessing the completeness, accuracy and relevance of data used in preparing the transition adjustments;
- Assessing the adequacy of the disclosures made in the Consolidated Financial Statements.

ASSESSMENT OF RETIREMENT BENEFIT OBLIGATIONS

Refer to the accounting policies in “Note 5.15 to the Financial Statements: significant accounting policies” and “explanatory Note 43.1.1 to the Financial Instruments”.

Risk description

As disclosed in Note 43.1.7 to the Financial Statements, the Bank has recorded LKR 1,134,771,000 as additional gratuity expense during the year ended 31 December 2018. This includes LKR 1,290,963,000 of past service cost for existing staff, LKR 344,974,000 of settlements for ex-staff and fair value of shares held under share trust companies of LKR 501,166,000.

Our responses

Our responses included the following:

- Obtaining a legal opinion on the settlement of the gratuity claim and held discussions with the legal counselors to understand the legal implications of the settlement of the additional gratuity claim;
- Checking the accuracy of the valuation of the shares held under share trust companies for which the beneficial ownership had been transferred to gratuity trust;



Risk description

As part of the settlement plan of additional gratuity claims, large number of present eligible employees have provided an unconditional acknowledgement, confirmation and acceptance to additional enhanced gratuity and relinquished their rights in the share trust companies.

Accounting treatment of recognition of fair value of the Bank shares held by share trust companies in the Gratuity Trust Fund and recognising the settlement of ex-employees and the past service cost relating to present employees arising from enhanced gratuity are based on the legal opinion and the estimation of the liability involves complex calculations.

We considered the assessment of the retirement benefit obligation to be a key audit matter due to estimation uncertainty involved in determining the amounts and other significant key assumptions and judgements.

Our responses

- Evaluating the appropriateness of accounting for additional gratuity liability;
- Assessing whether the changes to the gratuity plan has been incorporated in the actuarial valuation;
- Checking the accuracy of the data provided to the actuarial valuer;
- Challenging the key assumptions used in the valuation, in particular the discount rate, inflation rate, future salaries increases, mortality rates and future salary increases used in the actuarial valuation of the Bank;
- Recalculating the liability for the ex-employees due to additional gratuity;
- Assessing the adequacy of the disclosures made in the Financial Statements.

IT SYSTEMS AND CONTROLS OVER FINANCIAL REPORTING

Risk description

Automated accounting procedures and IT environment controls, which include IT governance, controls over program development and changes, access to programs and data and IT operations, are required to be designed and to operate effectively to ensure accurate financial reporting.

Of particular importance are system calculations and data logic regarding significant accounts, including interest calculations, as well as interfaces between business management systems and accounting systems.

Due to the rapid growth of on-line transaction volumes and the increasing challenge to protect the integrity of the Group's systems, system and data have become more significant.

We identified IT systems and controls over financial reporting as a key audit matter because the Group's financial accounting and reporting systems are fundamentally reliant on complex IT systems and control processes which are driven by significant transaction volumes caused by the size of the customer base both in the corporate and the retail banking businesses.

Our responses

We used our internal IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included the following:

- Testing design, implementation and the operating effectiveness of automated controls, principally relating to the automated calculation of financial transactions. We tested the inputs used within automated calculations to source data and also tested the accuracy of the calculation logic for a sample of transactions within each identified control; and
- Examining the framework of governance over the Group's IT organisation and the controls over program development and changes, access to programmes and data and IT operations, including compensating controls where required;
- Testing general IT controls related to applications which support the effective functioning of application controls;
- Testing significant accounts related IT application controls which are relevant to the accuracy of system calculation, and the consistency of data transmission, covering business in loans, interbank business, bills, retail business and others, as well as key accounting procedures;
- Performing architectural analysis, security configuration review, operational security of key information infrastructure, data and client information management, monitoring and emergency management.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the Financial Statements and our Auditors' Report thereon. Our opinion on the Financial Statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information identified

above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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



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

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditors' Report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditors' Report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditors' Report is 3029.

Chartered Accountants
Colombo, Sri Lanka

18 February 2019

INCOME STATEMENT

For the year ended 31 December	Note	Bank			Group		
		2018 LKR '000	2017 LKR '000	Change %	2018 LKR '000	2017 LKR '000	Change %
Gross income	6	54,872,530	49,161,276	11.62	54,844,593	49,696,356	10.36
Interest income		49,229,214	43,548,912	13.04	49,230,380	43,554,949	13.03
Less: Interest expenses		31,482,218	28,057,779	12.20	31,440,293	27,979,949	12.37
Net interest income	7	17,746,996	15,491,133	14.56	17,790,087	15,575,000	14.22
Fee and commission income		4,252,240	3,952,760	7.58	4,251,808	3,952,557	7.57
Less: Fee and commission expenses		198,273	164,619	20.44	202,810	170,553	18.91
Net fee and commission income	8	4,053,967	3,788,141	7.02	4,048,998	3,782,004	7.06
Net gains/(losses) from trading/ net fair value gains/(losses) from financial instruments at fair value through profit or loss	9	961,832	(38,911)	2,571.88	961,634	(40,103)	2,497.91
Net gains/(losses) from derecognition of financial assets	10	51,936	358,636	(85.52)	51,936	358,636	(85.52)
Net other operating income	11	377,308	1,339,879	(71.84)	348,835	1,870,317	(81.35)
Total operating income		23,192,039	20,938,878	10.76	23,201,490	21,545,854	7.68
Impairment charges	12	3,475,186	1,504,696	130.96	3,475,195	1,504,696	130.96
Net operating income		19,716,853	19,434,182	1.45	19,726,295	20,041,158	(1.57)
Less: Operating expenses	13						
Personnel expenses	14	5,782,333	5,195,863	11.29	5,816,527	5,228,790	11.24
Depreciation and amortisation expenses		745,823	695,694	7.21	809,868	743,417	8.94
Other expenses		5,274,384	4,990,968	5.68	5,164,715	4,899,055	5.42
Operating profit before additional gratuity expense		7,914,313	8,551,657	(7.45)	7,935,185	9,169,896	(13.46)
Additional gratuity expense	43.1.7	1,134,771	-	-	1,134,771	-	-
Operating profit before taxes		6,779,542	8,551,657	(20.72)	6,800,414	9,169,896	(25.84)
Value added tax on financial services		1,675,346	1,672,241	0.19	1,675,346	1,662,008	0.80
Nation building tax on financial services		223,380	222,965	0.19	223,380	222,965	0.19
Debt repayment levy		214,564	-	-	214,564	-	-
Profit before income tax		4,666,252	6,656,451	(29.90)	4,687,124	7,284,923	(35.66)
Income tax expense	15	1,477,046	2,226,053	(33.65)	1,536,268	2,281,292	(32.66)
Profit for the year		3,189,206	4,430,398	(28.02)	3,150,856	5,003,631	(37.03)
Profit attributable to:							
- Equity holders of the Bank		3,189,206	4,430,398	(28.02)	3,137,243	4,816,834	(34.87)
- Non-controlling interest		-	-	-	13,613	186,797	(92.71)
Profit for the year		3,189,206	4,430,398	(28.02)	3,150,856	5,003,631	(37.03)
Basic/diluted earnings per share (LKR)	16	8.71	12.10	(28.02)	8.57	13.16	(34.87)
Basic/diluted earnings per share excluding additional gratuity expense (LKR)	16.1	10.94	12.10	(9.59)	10.80	13.16	(17.93)

Notes on pages 180 to 266 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		
		2018 LKR '000	2017 LKR '000	Change %	2018 LKR '000	2017 LKR '000	Change %
Profit for the year		3,189,206	4,430,398	(28.02)	3,150,856	5,003,631	(37.03)
Other comprehensive income, net of tax							
Items that will be reclassified to income statement							
Net movement of cash flow hedges	46.5	35,906	(7,366)	587.46	35,906	(7,366)	587.46
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	46.4	(1,105,151)			(1,109,359)		
Net gain/(loss) on remeasuring of available-for-sale financial assets	46.4		2,636,992			2,639,217	
				(127.95)			(128.08)
Items that will not be reclassified to income statement							
Change in fair value on investments in equity instruments measured at fair value through other comprehensive income	46.4	368,208			368,208		
Revaluation of property, plant and equipment	46.2	-	-	-	101,159	(20,329)	597.61
Deferred tax on revaluation surplus of land	33,46.2	-	(231,989)	100.00	-	(231,989)	100.00
Actuarial gain on defined benefit obligations	43.1.8	84,326	28,182	199.22	83,844	27,312	206.99
Other comprehensive income for the year, net of tax		(616,711)	2,425,819	(125.42)	(520,242)	2,406,845	(121.62)
Total comprehensive income for the year		2,572,495	6,856,217	(62.48)	2,630,614	7,410,476	(64.50)
Total comprehensive income attributable to:							
Equity holders of the Bank		2,572,495	6,856,217	(62.48)	2,588,552	7,229,275	(64.19)
Non-controlling interest		-	-	-	42,062	181,201	(76.79)
Total comprehensive income for the year		2,572,495	6,856,217	(62.48)	2,630,614	7,410,476	(64.50)

Notes on pages 180 to 266 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

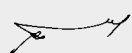
As at 31 December	Note	Bank			Group		
		2018 LKR '000	2017 LKR '000	Change %	2018 LKR '000	2017 LKR '000	Change %
Assets							
Cash and cash equivalents	19	12,573,611	8,319,384	51.14	12,573,651	8,319,424	51.14
Balances with Central Bank of Sri Lanka	20	18,472,275	19,119,843	(3.39)	18,472,275	19,119,843	(3.39)
Placements with banks and finance companies	21	-	1,455,115	(100.00)	-	1,455,115	(100.00)
Derivative financial instruments	22	1,676,958	60,165	2,687.27	1,676,958	60,165	2,687.27
Financial assets recognised through profit or loss/ held for trading							
- Measured at fair value	23	4,918,336	7,939,213	(38.05)	4,923,487	7,944,562	(38.03)
- Designated at fair value		-	-	-	-	-	-
Financial assets at amortised cost							
- Loans and advances	24	326,882,538	280,861,907	16.39	326,882,538	280,861,907	16.39
- Debt and other instruments	25	29,593,496	23,280,633	27.12	29,593,496	23,280,633	27.12
Financial assets measured at fair value through other comprehensive income/available for sale	26	58,770,720	53,507,037	9.84	58,819,604	53,507,037	9.93
Investment in subsidiary	27	1,153,602	1,153,602	-	-	-	-
Group balances receivable	28	40,600	30,000	35.33	-	-	-
Property, plant and equipment	29	3,739,526	3,495,140	6.99	6,357,092	6,001,586	5.92
Leasehold rights	30	38,479	40,425	(4.81)	571,990	581,346	(1.61)
Investment properties	31	-	-	-	845,138	851,667	(0.77)
Intangible assets	32	576,091	363,451	58.51	576,091	363,451	58.51
Deferred tax assets	33	270,275	-	-	99,648	-	-
Assets held for sale	34	-	900,543	(100.00)	-	-	-
Other assets	35	8,226,511	7,599,381	8.25	8,269,528	7,637,019	8.28
Total assets		466,933,018	408,125,839	14.41	469,661,496	409,983,755	14.56
Liabilities							
Due to banks	36	26,378,781	27,052,972	(2.49)	26,378,781	27,052,972	(2.49)
Derivative financial instruments	22	145,339	571,557	(74.57)	145,339	571,557	(74.57)
Financial liabilities at amortised cost							
- Due to depositors	37	357,560,187	307,098,902	16.43	357,560,187	307,098,902	16.43
- Due to debt securities holders	38	21,094,525	16,631,973	26.83	21,094,525	16,631,973	26.83
- Due to other borrowers	39	32,018	22,396	42.96	32,018	22,396	42.96
Group balances payable	40	211,686	1,145,110	(81.51)	-	-	-
Debt securities issued	41	16,329,400	12,494,025	30.70	16,329,400	12,494,025	30.70
Current tax liabilities	42	1,209,464	1,022,378	18.30	1,185,533	1,046,249	13.31
Deferred tax liabilities	33	-	1,359,044	(100.00)	-	1,431,294	(100.00)
Other liabilities	43	9,361,819	6,521,559	43.55	9,472,350	6,593,748	43.66
Total Liabilities		432,323,219	373,919,916	15.62	432,198,133	372,943,116	15.89
Equity							
Stated capital	44	12,025,795	11,228,269	7.10	12,025,795	11,228,269	7.10
Statutory reserve fund	45	1,768,944	1,609,484	9.91	1,768,944	1,609,484	9.91
Retained earnings		19,798,647	17,178,024	15.26	20,419,229	17,818,539	14.60
Other reserves	46	1,016,413	4,190,146	(75.74)	2,032,938	5,170,681	(60.68)
Total equity attributable to equity holders of the Bank		34,609,799	34,205,923	1.18	36,246,906	35,826,973	1.17
Non-controlling interest	27.2	-	-	-	1,216,457	1,213,666	0.23
Total equity		34,609,799	34,205,923	1.18	37,463,363	37,040,639	1.14
Total equity and liabilities		466,933,018	408,125,839	14.41	469,661,496	409,983,755	14.56
Commitments and contingencies	47	129,692,642	99,500,731	30.34	129,721,740	99,568,595	30.28
Net assets value per share (LKR)		94.54	96.50	(2.03)	99.01	101.08	(2.05)
Memorandum information							
Number of employees		3,344	3,199	4.53	3,366	3,225	4.37
Number of banking centres		170	166	2.41	170	166	2.41

Notes on pages 180 to 266 form an integral part of these Financial Statements.



Ms Champika Dodanwela
Chief Financial Officer

Approved and signed for and on behalf of the Board.



W M R S Dias
Chairman

18 February 2019
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 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, 46.2	-	-
- Actuarial gain on defined benefit obligations	43.1.8	-	-
- Net gain on re-measuring available-for-sale financial assets	46.4	-	-
- Net movement of cash flow hedge reserve	46.5	-	-
(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*	45	-	-
Transferred from investment fund reserve	46.6	-	-
(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
(1) Balance as at 1 January 2018		7,319,076	3,909,193
Adjustment on initial application of SLFRS 9, net of tax	56.1	-	-
(2) Restated balance as at 1 January 2018		7,319,076	3,909,193
Total comprehensive income for the year			
Profit for the year		-	-
Other comprehensive income (net of tax)			
- Actuarial gain on defined benefit obligations	43.1.8	-	-
- Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	46.4	-	-
- Change in fair value on investments in equity instruments measured at fair value through other comprehensive income	46.4	-	-
- Net movement of cash flow hedge reserve	46.5	-	-
(3) Total comprehensive income for the year		-	-
Transactions with equity holders, recognised directly in equity			
Cash/scrip dividends to equity holders	17	404,131	393,395
Reversal of revaluation on disposed property, plant and equipment			
Transferred to statutory reserve fund*	45	-	-
Transferred from investment fund reserve	46.6	-	-
Net gain on disposal of equity investments measured at fair value through other comprehensive income	46.4	-	-
(4) Total transactions with equity holders		404,131	393,395
Balance as at 31 December 2018 (2+3+4)		7,723,207	4,302,588

Statutory reserve fund*	Retained earnings	Other reserves			Total
		Revaluation reserve	FVOCI Reserve/ AFS Reserve	Other reserves	
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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
1,609,484	17,178,024	1,242,493	945,408	2,002,245	34,205,923
-	(155,362)	-	(1,570,187)	-	(1,725,549)
1,609,484	17,022,662	1,242,493	(624,779)	2,002,245	32,480,374
-	3,189,206	-	-	-	3,189,206
-	84,326	-	-	-	84,326
-	-	-	(1,105,151)	-	(1,105,151)
-	-	-	368,208	-	368,208
-	-	-	-	35,906	35,906
-	3,273,532	-	(736,943)	35,906	2,572,495
-	(1,240,596)	-	-	-	(443,070)
-	376,203	(376,203)	-	-	-
159,460	(159,460)	-	-	-	-
-	8,727	-	-	(8,727)	-
-	517,579	-	(517,579)	-	-
159,460	(497,547)	(376,203)	(517,579)	(8,727)	(443,070)
1,768,944	19,798,647	866,290	(1,879,301)	2,029,424	34,609,799

* 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 recognises 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.

Notes on pages 180 to 266 form an integral part of these Financial Statements.

FVOCI Reserve – Fair Value through Other Comprehensive Income Reserve

AFS Reserve – Available for Sale Reserve

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 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	46.2	-	-	-	-
- Deferred tax on revaluation surplus of land**	33,46.2				
- Actuarial gain on defined benefit obligations	43.1.8	-	-	-	27,569
- Net gain on re-measuring available-for-sale financial assets	46.4	-	-	-	-
- Net movement of cash flow hedge reserve	46.5	-	-	-	-
(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*	45	-	-	221,520	(221,520)
Transferred from investment fund reserve	46.6	-	-	-	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
(1) Balance as at 1 January 2018		7,319,076	3,909,193	1,609,484	17,818,539
Adjustment on initial application of SLFRS 9, net of tax	56.1	-	-	-	(121,806)
(2) Restated balance as at 1 January 2018		7,319,076	3,909,193	1,609,484	17,696,733
Total comprehensive income for the year					
Profit for the year		-	-	-	3,137,243
Other comprehensive income (net of tax)					
- Revaluation of property, plant and equipment	46.2	-	-	-	-
- Actuarial gain on defined benefit obligations	43.1.8	-	-	-	83,986
- Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	46.4	-	-	-	(1,410)
- Change in fair value on investments in equity instruments measured at fair value through other comprehensive income	46.4	-	-	-	-
- Net movement of cash flow hedge reserve	46.5	-	-	-	-
(3) Total comprehensive income for the year		-	-	-	3,219,819
Transactions with equity holders, recognised directly in equity					
Cash/scrip dividends	17	404,131	393,395	-	(1,240,596)
Reversal of revaluation on disposed property, plant and equipment		-	-	-	376,427
Transferred to statutory reserve fund*	45	-	-	159,460	(159,460)
Transferred from investment fund reserve	46.6	-	-	-	8,727
Net gain on disposal of equity investments measured at fair value through other comprehensive income	46.4	-	-	-	517,579
(4) Total transactions with equity holders		404,131	393,395	159,460	(497,323)
Balance as at 31 December 2018 (2+3+4)		7,723,207	4,302,588	1,768,944	20,419,229

Revaluation reserve	Other reserves		Total	Non-controlling interest	Total equity
	FVOCI Reserve/ AFS Reserve	Other reserves			
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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
1,967,727	945,496	2,257,458	35,826,973	1,213,666	37,040,639
-	(1,603,743)	-	(1,725,549)	-	(1,725,549)
1,967,727	(658,247)	2,257,458	34,101,424	1,213,666	35,315,090
-	-	-	3,137,243	13,613	3,150,856
71,327	-	-	71,327	29,832	101,159
-	-	-	83,986	(142)	83,844
-	(1,106,708)	-	(1,108,118)	(1,241)	(1,109,359)
-	368,208	-	368,208	-	368,208
-	-	35,906	35,906	-	35,906
71,327	(738,500)	35,906	2,588,552	42,062	2,630,614
-	-	-	(443,070)	(39,271)	(482,341)
(376,427)	-	-	-	-	-
-	-	-	-	-	-
-	-	(8,727)	-	-	-
-	(517,579)	-	-	-	-
(376,427)	(517,579)	(8,727)	(443,070)	(39,271)	(482,341)
1,662,627	(1,914,326)	2,284,637	36,246,906	1,216,457	37,463,363

* 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 recognises 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.

Notes on pages 180 to 266 form an integral part of these Financial Statements.

FVOCI Reserve - Fair Value through Other Comprehensive Income Reserve

AFS Reserve - Available for Sale Reserve

CASH FLOW STATEMENT

For the year ended 31 December	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Cash flows from operating activities				
Interest receipts	46,871,290	42,125,061	46,872,456	42,131,098
Interest payments	(28,162,777)	(24,790,205)	(28,139,546)	(24,728,125)
Net commission receipts	4,053,967	3,788,141	4,048,998	3,782,004
Trading income	79,954	20,309	79,756	20,309
Payments to employees	(5,973,776)	(5,075,388)	(6,008,216)	(5,108,861)
VAT and NBT on financial services and DRL	(2,258,810)	(1,768,491)	(2,258,810)	(1,768,491)
Receipts from other operating activities	1,596,098	2,346,937	1,686,424	2,427,052
Payments on other operating activities	(5,213,731)	(4,963,834)	(5,095,557)	(4,904,323)
Operating profit before changes in operating assets and liabilities [Note (a)]	10,992,215	11,682,530	11,185,505	11,850,663
(Increase)/decrease in operating assets:				
Balances with Central Bank of Sri Lanka	647,568	(2,908,225)	647,568	(2,908,225)
Financial assets at amortised cost - Loans and advances	(48,243,676)	(45,762,794)	(48,243,676)	(45,762,794)
Other assets	(1,745,640)	815,361	(1,740,419)	816,293
Increase/(decrease) in operating liabilities:				
Financial liabilities at amortised cost - Due to depositors	48,740,109	31,865,319	48,740,109	31,865,319
Financial liabilities at amortised cost - Due to debt securities holders	4,463,652	665,351	4,463,652	665,351
Financial liabilities at amortised cost - Due to other borrowers	9,622	1,147	9,622	1,147
Other liabilities	(1,246,270)	(877,016)	(360,964)	(1,769,039)
Due to banks	(674,191)	9,324,679	(674,191)	9,324,679
Cash generated from operating activities before income tax	12,943,389	4,806,352	14,027,206	4,083,394
Income tax paid	(1,690,523)	(1,039,353)	(1,715,678)	(1,051,018)
Net cash generated from operating activities	11,252,866	3,766,999	12,311,528	3,032,376
Cash flows from investing activities				
Purchase of property, plant and equipment	(870,778)	(667,809)	(887,614)	(690,436)
Improvements to investment properties	-	-	(4,246)	(7,538)
Proceeds from sale of property, plant and equipment	972,594	13,311	38,795	761,569
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	(3,733,611)	(9,321,771)	(3,733,611)	(9,321,771)
Net proceeds from sale, maturity and purchase of financial investments of shares and debentures	338,335	938,396	289,640	1,042,315
Reverse repurchase agreements maturing after three months	2,248	(7,209)	2,248	(7,209)
Net purchase of intangible assets	(332,855)	(193,775)	(332,855)	(193,775)
Net cash flow from acquisition of investment in subsidiaries	-	-	-	-
Net cash flow from disposal of subsidiaries	-	-	-	-
Dividend received from investment in subsidiaries	84,509	70,424	-	-
Dividend received from other investments	41,641	43,570	41,641	43,570
Net cash used in investing activities	(3,497,917)	(9,124,863)	(4,586,002)	(8,373,275)
Cash flows from financing activities				
Net proceeds from the issue of ordinary share capital	-	-	-	-
Net proceeds from the issue of other equity instruments	-	-	-	-
Net proceeds from the issue of subordinated debt	6,234,000	-	6,134,000	-
Repayment of subordinated debt	(2,462,280)	-	(2,312,280)	-
Interest paid on subordinated debt	(1,320,046)	(979,400)	(1,309,155)	(971,650)
Interest paid on un-subordinated debt	(438,365)	(439,276)	(430,562)	(431,276)
Dividend paid to non-controlling interest	-	-	(39,271)	(32,725)
Dividend paid to shareholders of the Bank	(440,436)	(426,702)	(440,436)	(426,702)
Dividend paid to holders of other equity instruments	-	-	-	-
Net cash (used in)/generated from financing activities	1,572,873	(1,845,378)	1,602,296	(1,862,353)
Net increase/(decrease) in cash and cash equivalents	9,327,822	(7,203,242)	9,327,822	(7,203,252)
Cash and cash equivalents at beginning of the year	16,073,851	23,277,093	16,073,891	23,277,143
Cash and cash equivalents at end of the year	25,401,673	16,073,851	25,401,713	16,073,891
Reconciliation of cash and cash equivalents				
Cash and cash equivalents (Note 19)	12,598,457	8,319,384	12,598,497	8,319,424
Placements with banks and finance companies (Note 21)	-	1,455,115	-	1,455,115
Government of Sri Lanka Treasury Bills/Bonds and Development Bonds maturing within three months	7,346,010	4,555,706	7,346,010	4,555,706
Securities purchased under resale agreements maturing within three months	5,457,206	1,743,646	5,457,206	1,743,646
	25,401,673	16,073,851	25,401,713	16,073,891

Note (a) Reconciliation of operating profit before changes in operating assets and liabilities

<i>For the year ended 31 December</i>	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Profit before income tax	4,666,252	6,656,451	4,687,124	7,284,923
Accrual for interest income	(2,195,972)	(758,815)	(2,195,972)	(758,815)
Notional tax credit on Government Securities	(161,952)	(665,036)	(161,952)	(665,036)
Accrual for interest expenses	1,561,030	1,848,898	1,561,030	1,848,898
Fair value adjustment on derivative financial instruments	(1,082,007)	359,218	(1,082,007)	359,218
Straightlining of operating leases	(1,058)	46,409	(1,058)	46,409
Loss on revaluation of foreign exchange	1,362,326	826,196	1,363,166	826,786
Dividend income	(126,150)	(113,994)	(41,641)	(43,570)
Unrealised fair value (gains)/losses on financial instruments measured at fair value through profit/loss	200,129	(299,997)	200,129	(298,805)
Profit from sale of property, plant and equipment	(35,865)	(12,976)	(35,872)	(12,976)
Profit from sale of assets held for sale	(33,457)	-	-	(521,337)
Depreciation of freehold property, plant and equipment	623,662	601,313	669,522	631,677
Depreciation of leasehold rights	1,946	1,945	9,356	9,355
Depreciation of investment properties	-	-	10,775	9,949
Amortisation of intangible assets	120,215	92,436	120,215	92,436
Impairment charges on loans and advances	3,516,040	1,495,825	3,516,040	1,495,825
Amortisation of pre-paid staff cost	247,541	246,519	247,815	246,433
Accrual for VAT and NBT on financial services and DRL	(145,520)	126,715	(145,520)	126,715
Accrual for employee retirement benefits liability	695,787	(126,044)	695,267	(126,504)
Impairment charges on other financial assets	(40,854)	(41,933)	(40,845)	(41,933)
Accrual for leave encashment provision	4,206	67,884	4,206	67,884
Accrual for other expenses	57,505	(87,160)	66,010	(129,795)
Interest paid to debt securities holders	1,758,411	1,418,676	1,739,717	1,402,926
Operating profit before changes in operating assets and liabilities	10,992,215	11,682,530	11,185,505	11,850,663

Notes on pages 180 to 266 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 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 2018 is 3,344 (2017 - 3,199).

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 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 5.

This is the first set of the Financial Statements in which SLFRS 9 - "Financial Instruments" and SLFRS 15 - "Revenue from Contracts with Customers" have been applied. Changes to significant accounting policies are described in Note 4.

2.2 APPROVAL OF FINANCIAL STATEMENTS BY DIRECTORS

The Financial Statements were authorised for issue by the Board of Directors on 18 February 2019.

2.3 BASIS OF MEASUREMENT

The Financial Statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments and non-derivative financial instruments held at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI) 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 and to be in compliance with the Circular No. 2 of 2019 issued by Central Bank of Sri Lanka on publication of Annual and Quarterly Financial Statements and other Disclosures by Licensed banks 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 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) (A) JUDGEMENTS (Applicable to 2018 only)

CLASSIFICATION AND IMPAIRMENT OF FINANCIAL ASSETS

The Group used judgements when assessing of the business model within which the assets are held and assessment whether the contractual terms of the financial assets are solely-payment-of-principal-and-interest (SPPI) on the principal amount of the outstanding.

The Group also used judgements when establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of Expected Credit Losses (ECL) and selection and approval of models to measure ECL.

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 5.1.4.

(I) (B) JUDGEMENTS (Applicable to 2017)

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 5.1.4.

(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, 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.

The Bank uses estimates when determining inputs into the ECL measurement model, including incorporation of forward looking information.

This includes an element of 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 of which can result in different levels of allowances.

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. 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. CHANGES IN ACCOUNTING POLICIES

The Group has initially adopted SLFRS 9 and SLFRS 15 from 1 January 2018. Due to the transition method chosen by the Group in applying SLFRS 9, comparative information throughout these Financial Statements has not been restated to reflect its requirements.

The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- An increase in impairment losses recognised on financial assets
- Additional disclosures related to SLFRS 9
- Additional disclosures related to SLFRS 15

The impact on classification and measurement of Financial Assets due to the adoption of SLFRS 9 is disclosed in Note 56.

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 5 to all periods presented in these Consolidated Financial Statements.

4.1 SLFRS 9 – “FINANCIAL INSTRUMENTS”

SLFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces LKAS 39 “Financial Instruments: Recognition and Measurement”. The requirements of SLFRS 9 represent a significant change from LKAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by SLFRS 9, the Group has elected to continue to apply the hedge accounting requirements of LKAS 39.

The key changes to the Group's accounting policies resulting from its adoption of SLFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 56.

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

SLFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous LKAS 39 categories of held to maturity, loans and receivables and available for sale. Under SLFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under SLFRS 9, refer Note 5.4.2.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, although under LKAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under

SLFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under SLFRS 9, refer Note 5.4.2.

IMPAIRMENT OF FINANCIAL ASSETS

SLFRS 9 replaces the “incurred loss” model in LKAS 39 with an “expected credit loss” model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under SLFRS 9, credit losses are recognised earlier than under LKAS 39. For an explanation of how the Group applies the impairment requirements of SLFRS 9, refer Note 5.4.5.

TRANSITION

Changes in accounting policies resulting from the adoption of SLFRS 9 have been applied retrospectively, except as described below:

- The Group used the exemption not to restate comparatives. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of SLFRS 9 and therefore is not comparable to the information presented for 2018 under SLFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
 - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's

credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

- If a debt security had low credit risk at the date of initial application of SLFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

More information and details on the changes and implications resulting from the adoption of SLFRS 9 is given in Note 56.

4.2 SLFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced LKAS 18 – “Revenue”, LKAS 11 – “Construction Contracts” and related interpretations.

The Group initially applied SLFRS 15 on 1 January 2018 retrospectively in accordance with LKAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of SLFRS 15. The impact of SLFRS 15 was limited to the new disclosure requirements.

5. 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 Group entities except for the changes in accounting policies described in Note 4.

5.1 BASIS OF CONSOLIDATION

5.1.1 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 advances.

5.1.2 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.

5.1.3 TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the Financial Statements. Unrealised 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.

5.1.4 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 48 to the Financial Statements. The impact of such treatment is not material to the Financial Statements.

5.1.5 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.

5.1.6 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 55.

5.2 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.

5.3 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.

5.4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.4.1 RECOGNITION AND INITIAL MEASUREMENT

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

5.4.2 (A) CLASSIFICATION (Policy adopted from 1 January 2018)

FINANCIAL ASSETS

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

BUSINESS MODEL ASSESSMENT

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to Management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

ASSESSMENT OF WHETHER CONTRACTUAL CASH FLOWS ARE SOLELY PAYMENTS OF PRINCIPAL AND INTEREST (SPPI)

For the purposes of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instruments. This includes assessing whether the financial asset contains a contractual term that could change the timing or contractual cash flows such that it would not meet this condition. In making the assessment the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

NON-RECOURSE LOANS

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgement in assessing whether the non-recourse loans meet the SPPI criterion.

The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

RECLASSIFICATIONS

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

5.4.2 (B) CLASSIFICATION (Policy adopted before 1 January 2018)

FINANCIAL ASSETS

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
 - held for trading; or
 - designated as at FVTPL.

FINANCIAL LIABILITIES

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

5.4.3 DERECOGNITION

FINANCIAL ASSETS

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the

Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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 derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained. 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.

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. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

FINANCIAL LIABILITIES

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

MODIFICATION OF FINANCIAL ASSETS AND LIABILITIES (Policy adopted from 1 January 2018)

FINANCIAL ASSETS

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (refer write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of

the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

FINANCIAL LIABILITIES

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

MODIFICATION OF FINANCIAL ASSETS AND LIABILITIES (Policy adopted before 1 January 2018)

FINANCIAL ASSETS

If the terms of a financial asset were modified, then the Group evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

FINANCIAL LIABILITIES

The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by recomputing the effective interest rate on the instrument.

5.4.4 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 one is 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 on 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 on 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 for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on 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 the particular risk exposure. Portfolio-level adjustments – e.g., bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – 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 financial liability with a demand feature (e.g., 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.

5.4.5 (A) IMPAIRMENT (Policy adopted from 1 January 2018)

RECOGNITION OF ECL

The Group recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- undrawn credit commitments.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the definition of “investment grade”. The Group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as “Stage 1 financial instruments”.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as “Stage 2 financial instruments”.

MEASUREMENT OF ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

RESTRUCTURED FINANCIAL ASSETS

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

CREDIT-IMPAIRED FINANCIAL ASSETS

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as “Stage 3 financial assets”). A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is past due for a period more than 90 days or classified as non-performing under CBSL Direction No. 03 of 2008 is considered credit-impaired.

PRESENTATION OF ALLOWANCE FOR ECL IN THE STATEMENT OF FINANCIAL POSITION

Loss allowances for ECL are presented in the Statement of Financial Position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a provision under other liabilities;
- debt instruments measured at FVOCI: no loss allowance is recognised in the Statement of Financial Position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

WRITE-OFF

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the Statement of Profit or Loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5.4.5 (B) IMPAIRMENT (Policy adopted before 1 January 2018)

RECOGNITION 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 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.

5.4.6 DESIGNATION AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group does not have any financial assets or financial liabilities designated as at FVTPL.

5.5 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.

5.6 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.

5.7 DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES AND HEDGE ACCOUNTING

Derivatives are categorised as FVTPL 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 OCI 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 OCI 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.

5.8 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 re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

5.9 INTANGIBLE ASSETS

5.9.1 SOFTWARE

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

5.9.2 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.

5.9.3 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

5.10 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 LKAS 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 55.

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 leasehold property 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.

5.10.1 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.

5.10.2 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 55 to the Financial Statements.

5.11 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.

5.11.1 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.

5.11.2 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.

5.11.3 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.

5.11.4 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.

5.11.5 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.

5.11.6 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

5.11.7 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.

5.11.8 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.

5.11.9 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.

5.12 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.

5.13 INVENTORIES

Inventory mainly consists of stationery and *Tikiri* gifts. Bank account the inventory at weighted average cost method.

5.14 LIABILITIES AND PROVISIONS

5.14.1 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.

5.14.2 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. 7 of 2007.

5.15 EMPLOYEE RETIREMENT BENEFITS

5.15.1 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

The Board has resolved to pay an additional half a month basic salary (last drawn) over and above the statutory gratuity entitlement for each year of service for eligible existing employees and ex-employees who joined before 5 March 2009 and retired/resigned after 5 March 2009 having completed uninterrupted and unblemished service period of ten years in the Bank, subject to the entering into a memorandum of settlement which confers on them the said entitlement to the additional payment and giving the right to the Bank to settle the said liability by disposal of the shares in the Share Trust companies.

All employees who joined on or after 5 March 2009 are entitled to receive a Gratuity of half a month basic salary (last drawn) for each completed year of service in terms of Gratuity Act No. 12 of 1983.

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.

PAST SERVICE COST AND GAIN/LOSS ON SETTLEMENT

Before determining past service cost or gain or loss on settlements, the Bank remeasures the net defined benefit liability/(asset) using the current fair value of plan assets and current actuarial assumptions reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.

A plan amendment occurs when an entity introduces, or withdraws a defined benefit plan or changes the benefits payable under an existing defined benefit plan. The past service cost or gain or loss on settlement is calculated net of any related asset transferred and recognised in profit or loss.

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.

5.15.2 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.

5.15.2 (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.

5.15.2 (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 the Financial Statements.

5.16 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.

5.17 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.

5.18 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

5.19 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 FVOCI investment securities calculated on an effective interest basis is also included in interest income.

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 GAINS/(LOSSES) FROM TRADING/ NET FAIR VALUE GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

This income comprises gains less losses related to trading/FVTPL assets 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 other operating income.

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.

PROFITS/LOSSES FROM SALE OF PROPERTY, PLANT AND EQUIPMENT

Any profits or losses from sale of property, plant and equipment are recognised in the period in which the sale occurs and is classified as net other operating income.

PROFITS/LOSSES FROM SALE OF INVESTMENT PROPERTIES

Any profits 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.

5.20 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.

5.21 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.

5.21.1 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.

5.21.2 DEFERRED TAX

Deferred taxation is a methodology identifying the temporary differences of income tax computation and accounting for the same to bring out true and fair view of an organisation. It accounts for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities which is the amount attributed for 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 the rates enacted or substantively enacted by the reporting date.

Deferred tax is not recognised for –

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting or 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.

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.

Deferred tax asset is created on foreseen futuristic realisation of a tax deduction which is taxed in the current period and vice versa a deferred tax liability shall be created for a foreseen futuristic realisation of a tax payment which is enjoyed as a tax deduction in the current period. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced or increased in accordance with the existence of taxing probabilities in the future.

Details of the deferred tax assets and liabilities as at the reporting date are

given in Note 15.4 and in Note 33 including the sub notes.

Deferred tax impact of items that are recognised in OCI/directly in equity are also recognised in OCI/directly in equity.

Bank has already recognised the 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 was recognised in the Other Comprehensive Income of the year 2017.

5.21.3 WITHHOLDING TAX ON DIVIDENDS

Dividends distributed out of taxable profit of the subsidiary attract a 14% tax 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 as a liability of the shareholders' according to the provision of the Inland Revenue Act No. 24 of 2017. Bank ensures the correct amount of withholding tax is properly paid to the Inland Revenue Department on behalf of the shareholders.

Withholding tax paid at the rate of 14% at source shall be the final tax in the hands of any person. Therefore dividend received by the Bank shall be final and will not be further taxed.

5.21.4 VALUE ADDED TAX AND NATION BUILDING TAX ON FINANCIAL SERVICES

The value base for Value Added Tax (VAT) and Nation Building Tax (NBT) 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 as per the VAT Act.

5.21.5 DEBT REPAYMENT LEVY (DRL)

DRL has been imposed through Finance Act No. 35 of 2018 approved by the Parliament on 1 November 2018, and has been retrospectively imposed from 1 October 2018 till 31 December 2021 on banks and financial institutions only. The purpose of the Levy is to facilitate the Debt settlement of the Government where the Government expects to collect approximately LKR. 20 Bn. per annum.

DRL is payable at 7% on the same value base considered for VAT and NBT.

5.21.6 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.

5.21.7 CROP INSURANCE LEVY

Section 14 of the Finance Act No. 12 of 2013 impose 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.

5.22 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.

5.23 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.

5.24 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.

5.25 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 there to all licensed commercial banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No. 1 of 2010 issued under Sections 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.

5.26 RESERVES

5.26.1 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.

5.26.2 CAPITAL RESERVE

This reserve has been created in 1991 and the Debenture Redemption Reserve Fund was transferred to Capital Reserve in 2004.

5.26.3 REVALUATION RESERVE

This reserve has been created on revaluation of land and buildings of the Bank.

5.26.4 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.

5.26.5 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 proceeds 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.

5.26.6 FAIR VALUE RESERVES

This represent the fair value changes of available for sale investments prior to 1 January 2018 and fair value changes of Financial assets measured at fair value through other comprehensive income (FVOCI) since 1 January 2018.

5.26.7 CASH FLOW HEDGE RESERVE

This has been created to account fair value changes of designated hedging instruments under cash flow hedges.

5.27 EVENTS AFTER THE REPORTING PERIOD

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 51 to the Financial Statements or adjusted as applicable.

5.28 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 2019. Accordingly, the Group has not applied the following new standards in preparing these Consolidated Financial Statements.

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.

6. 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 Board 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 Board Audit Committee is responsible for monitoring compliance with the Bank's Risk Management Policies and procedures. The Board 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 Board 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 (FVTPL) is managed independently and information thereon is disclosed below. The market risk in respect of changes in fair value in trading assets (FVTPL) 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 advances), and by issuer.
- 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 set out information about credit quality of financial assets and allowance for impairment/expected credit losses held by the Bank against those assets.

	2018				2017
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Total LKR '000
Financial assets at amortised cost : loans and advances					
Grade 0 - 2 performing loans	297,528,951	16,810,638	1,043,601	315,383,190	272,558,821
Grade 3: NPA special mention	-	-	5,083,985	5,083,985	3,952,815
Grade 4: NPA substandard	-	-	5,525,763	5,525,763	1,996,111
Grade 5: NPA doubtful	-	-	3,322,769	3,322,769	1,035,957
Grade 6: NPA loss	-	-	7,459,363	7,459,363	6,925,669
Total gross loans and advances	297,528,951	16,810,638	22,435,481	336,775,070	286,469,373
Expected credit loss allowance/impairments	(598,268)	(820,746)	(8,473,518)	(9,892,532)	(5,607,466)
Total net loans and advances	296,930,683	15,989,892	13,961,963	326,882,538	280,861,907
Financial assets at amortised cost : debt and other instruments					
Government Securities - Treasury bonds	20,356,443	-	-	20,356,443	17,658,702
Sri Lanka Development Bonds	3,032,380	-	-	3,032,380	3,006,375
Quoted debentures	81,140	-	-	81,140	193,956
Unquoted debentures	671,089	-	-	671,089	670,745
Securities purchased under resale agreements	5,462,167	-	-	5,462,167	1,750,855
Total financial assets measured at amortised cost	29,603,219	-	-	29,603,219	23,280,633
Expected credit loss allowance	(9,723)	-	-	(9,723)	-
Net financial assets measured at amortised cost	29,593,496	-	-	29,593,496	23,280,633
Cash and cash equivalents (balances with Banks)					
Balances with Local Banks	40,697	-	-	40,697	15,641
Balances with Foreign Banks	4,928,598	-	-	4,928,598	971,931
Total balances with Banks	4,969,295	-	-	4,969,295	987,572
Expected credit loss allowance	(24,846)	-	-	(24,846)	-
Net balances with Banks	4,944,449	-	-	4,944,449	987,572

MEASUREMENT OF EXPECTED CREDIT LOSSES (ECL)

Inputs, assumptions and techniques used for estimating impairment under SLFRS 9 is disclosed under Accounting Policies Note 5.4.5.

SIGNIFICANT INCREASE IN CREDIT RISK

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information.

The Group uses a backstop of 30 days past due for determining whether there is a significant increase in credit risk.

INCORPORATION OF FORWARD-LOOKING INFORMATION

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument

has increased significantly since its initial recognition and the measurement of ECL.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses.

The key drivers for credit risk are GDP growth, unemployment rates, inflation, exchange rates and interest rates.

The Group formulates multiple economic scenarios to reflect base case, best case and worst case.

MEASUREMENT OF ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

COLLATERAL HELD AND OTHER CREDIT ENHANCEMENT

The Bank holds collateral against loans and advances 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 advances 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 advances to customers is given below and the value of collateral has been restricted to the value of the loans outstanding balances.

Collateral type	2018 LKR '000	2017 LKR '000
Documentary bills (excluding export bills purchased at current exchange rate)	116,068	40,512
Government securities	45,552	139,713
Stocks, bonds, debentures, sundries including life policies	186,135	221,165
Fixed, savings, other deposits and pawning	43,898,101	42,051,886
Stock in trade	2,447,251	2,582,251
Immovable property, plant and machinery	136,478,463	117,450,428
Personal guarantees and promissory notes	10,816,132	6,272,531
Trust receipts	2,702,264	1,812,834
Leasing, hire purchase agreements and motor vehicles	18,758,598	12,116,098
Other securities	60,264,982	44,476,851
	275,713,546	227,164,269
On clean basis	63,487,360	59,305,104
Total	339,200,906	286,469,373

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 2018 %
Derivative financial instruments	None	-
Loans and advances to banks		
Securities purchased under resale agreements	Marketable securities	100
Placements with banks and finance Companies	None	-
Loans and advances to retail customers		
Mortgage lending	Residential property	100
Credit cards	None	-
Personal loans	None/guarantors	-
Loans and advances to other customers		
Finance Leases	Motor vehicles and equipment	100
Other lending to other customers	Commercial property, floating charges over other loans and advances	81*
Securities purchased under resale advances	Marketable securities	100

*Based on the exposure covered with collateral.

Details of financial and non-financial assets obtained by the Bank as at 31 December 2018 by taking possession of collateral held as security (foreclosed) against loans and advances as well as calls made on credit enhancements and held as at the year end are shown below:

Foreclosed properties	2018		2017	
	Loans and advances LKR '000	Forced sale value of foreclosed collaterals LKR '000	Loans and advances LKR '000	Forced sale value of foreclosed collaterals LKR '000
Balance as at 1 January	794,024	1,562,833	481,769	1,207,143
Additions during the year	818,206	1,034,590	454,604	609,115
Disposal during the year	(256,050)	(248,900)	(142,349)	(253,425)
Balance as at 31 December	1,356,180	2,348,523	794,024	1,562,833

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 advances by industry at the reporting date is shown in Note 24.1.3 to the financial statements.

Concentration by location for loans and advances is measured based on the location of the Branch entity holding the asset, which has a high correlation with the location of the borrower. This is given in Geographical Analysis (Page 278).

The table below shows the carrying amounts of the Bank's exposures to other financial instruments:

	2018 LKR '000	2017 LKR '000
Financial assets measured at fair value through profit or loss/held for trading	4,918,336	7,939,213
Derivative financial instruments	1,676,958	60,165
Investment securities:		
Financial assets measured at fair value Through other comprehensive income/available for sale	58,770,720	53,507,037
Financial assets at amortised cost - debt and other instruments	29,593,496	23,280,633

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 advances 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 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:

	2018		2017	
	DBU %	FCBU %	DBU %	FCBU %
At 31 December	21.44	22.08	23.57	37.08
Average for the year	22.13	23.54	23.84	30.62
Maximum for the year	23.02	27.83	25.43	37.08
Minimum for the year	21.32	21.67	21.78	23.39

Maturity analysis for the financial liabilities is shown below with their undiscounted contractual cash flows over the future periods.

FINANCIAL LIABILITIES - 2018

	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					
Due to banks and other borrowers	7,938,838	2,988,707	20,765,271	-	31,692,816
Financial liabilities at amortised cost due to depositors	166,311,329	183,981,414	20,055,709	9,570,565	379,919,017
Debt Securities Issued	2,501,556	498,351	8,108,527	5,767,281	16,875,715
Financial liabilities at amortised cost due to debt securities holders	21,177,027	481,000	-	-	21,658,027
Derivative liabilities					
Derivative financial instruments	145,339	-	-	-	145,339

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					
Due to banks and other borrowers	7,894,369	6,677,340	16,800,467	-	31,372,176
Financial liabilities at amortised cost due to depositors	144,168,535	153,240,857	18,567,440	9,021,568	324,998,400
Debt Securities Issued	2,501,556	498,351	8,108,527	5,767,281	16,875,715
Financial liabilities at amortised cost due to debt securities holders	16,328,359	722,581	-	-	17,050,940
Derivative liabilities					
Derivative financial instruments	571,557	-	-	-	571,557

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.

	2018	
	Carrying amount LKR '000	Fair value LKR '000
Cash and cash equivalents*	12,573,611	12,573,611
Placements with banks and Finance companies	-	-
Balances with Central Bank of Sri Lanka*	18,472,275	18,472,275
Treasury Bills/Bonds (net of securities sold under repurchase agreements)	69,657,854	69,417,522
Bills purchased*	4,702,239	4,702,239
Total liquidity reserve	105,405,979	105,165,647

* 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 of 31 December 2018 and 31 December 2017:

	2018				2017			
	Encumbered		Unencumbered	Total	Encumbered		Unencumbered	Total
	Pledged as collateral LKR '000	Other LKR '000			Pledged as collateral LKR '000	Other LKR '000		
Cash and cash equivalents	-	-	12,573,611	12,573,611	-	-	8,319,384	8,319,384
Placements with banks and finance companies	-	-	-	-	-	-	1,455,115	1,455,115
Financial assets recognised through profit or loss/held for trading measured at fair value	771,211	-	4,147,125	4,918,336	21,905	-	7,917,308	7,939,213
Loans and advances	-	-	326,882,538	326,882,538	-	-	280,861,907	280,861,907
Financial assets measured at fair value through other comprehensive income/available for sale/financial assets at amortised cost - debt and other instruments	23,020,307	-	65,343,909	88,364,216	18,198,435	-	58,589,235	76,787,670
Other assets	-	-	34,194,317	34,194,317	-	-	32,762,550	32,762,550
Total assets	23,791,518	- 443,141,500	466,933,018	466,933,018	18,220,340	- 389,905,499	389,905,499	408,125,839

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.

	2018			2017		
	Carrying amount	Trading portfolios	Non-trading portfolios	Carrying amount	Trading portfolios	Non-trading portfolios
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets subject to market risk						
Financial assets recognised through profit or loss/held for trading	4,918,336	4,918,336	-	7,939,213	7,939,213	-
Derivative financial instruments	1,676,958	1,676,958	-	60,165	60,165	-
Placements with banks and finance companies	-	-	-	1,455,115	-	1,455,115
Loans and advances	326,882,538	-	326,882,538	280,861,907	-	280,861,907
Financial assets measured at fair value through other comprehensive income/available for sale	58,770,720	-	58,770,720	53,507,037	-	53,507,037
Securities purchased under resale agreements	5,462,167	-	5,462,167	1,750,855	-	1,750,855
	397,710,719	6,595,294	391,115,425	345,574,292	7,999,378	337,574,914
Liabilities subject to market risk						
Derivative financial instruments	145,339	145,339	-	571,557	571,557	-
Due to depositors	357,560,187	-	357,560,187	307,098,902	-	307,098,902
Debt securities Issued	16,329,400	-	16,329,400	12,494,025	-	12,494,025
Due to banks	26,378,781	-	26,378,781	27,052,972	-	27,052,972
Due to other borrowers	32,018	-	32,018	22,396	-	22,396
Due to debt securities holders	21,094,525	-	21,094,525	16,631,973	-	16,631,973
	421,540,250	145,339	421,394,911	363,871,825	571,557	363,300,268

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 (EMORMC), (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 Banks 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 tenors of the reprising 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 Banks' net interest income.

The changes issued by the Monetary Board during the year 2018 for the Standing Deposit Facility Rate (SDFR), the Standing Lending Facility Rate (SLFR) and the Statutory Reserve Ratio (SRR) of the Central Bank are given below:

Monetary policy decision on:	4 April 2018		14 November 2018	
Standing Deposit Facility Rate (SDFR)	No Change	7.25%	Increased by 75 basis points	8.00%
Standing Lending Facility Rate (SLFR)	SLFR reduced by 25 basis points	8.50%	Increased by 50 basis points	9.00%
Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks	No Change	7.50%	Reduced by 1.50 percentage points	6.00%

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 2019 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 2019 (EAR)						
As at 31 December 2018	(421.62)	421.62	(843.24)	843.24	(1,074.28)	1,074.28
As at 31 December 2017	(289.72)	289.72	(579.43)	579.43	(743.31)	743.31

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 2018					
Interest earning assets					
Placements with banks and finance companies					
Loans and advances	326,882,538	146,034,142	67,884,256	95,311,222	17,652,918
Financial assets recognised through profit or loss/held for trading, financial assets measured at fair value through other comprehensive income/available for sale and financial assets at amortised cost excluding equities	86,160,227	7,346,010	10,666,536	59,370,628	8,777,053
Securities purchased under resale agreements	5,462,167	5,457,206	4,961	-	-
Non-Interest earning assets	48,428,086	40,470,764	2,447,977	73	5,509,272
Total assets	466,933,018	199,308,122	81,003,730	154,681,923	31,939,243
Interest bearing liabilities					
Due to depositors	335,189,680	141,023,206	169,757,649	16,263,831	8,144,994
Due to banks and other borrowers	26,410,799	7,744,075	2,715,525	15,951,199	-
Due to debt securities holders	21,094,525	20,657,491	437,034	-	-
Debt securities issued	16,329,400	513,994	1,875,366	11,616,040	2,324,000
Group balances payable	198,598	98,598	-	100,000	-
Non-interest bearing liabilities	67,710,016	33,100,217	-	-	34,609,799
Total liabilities	466,933,018	203,137,581	174,785,574	43,931,070	45,078,793
Gaps	-	(3,829,459)	(93,781,844)	110,750,853	(13,139,550)

	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	-	-	-
Loans and advances	280,861,907	136,881,411	51,412,088	78,877,297	13,691,111
Financial assets recognised through profit or loss/held for trading, financial assets measured at fair value through other comprehensive income/available for sale and financial assets at amortised cost 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					
Due to depositors	287,095,837	121,874,057	142,466,478	15,238,183	7,517,119
Due to banks and other borrowers	27,075,368	7,720,654	6,126,000	13,228,714	-
Due to debt securities holders	16,631,973	15,969,055	662,918	-	-
Debt securities issued	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)

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.

Due to the prolonged stagnant outlook of the Colombo Stock Market, the Bank disposed all the share investments done with a trading intentions and retained only the shares invested for strategic purposes.

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	
	2018 '000	2017 '000	2018 LKR '000	2017 LKR '000
Net foreign currency exposure				
Great Britain Pound	13.31	0.28	3,079.27	57.56
United States Dollar	568.83	(261.81)	103,668.87	(40,095.50)
Euro	8.18	4.25	1,704.92	777.10
Japanese Yen	(154.02)	(241.26)	(254.04)	(327.53)
Australian Dollar	15.05	1.95	1,937.94	232.90

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of 5%, 10% and 15%, for depreciation on the current exchange rate and the impact on the overall foreign currency NOP (in USD) and the impact on Income Statement is shown in the table below:

NOP as on 31 December 2018			NOP as on 31 December 2017		
	USD '000	LKR '000		USD '000	LKR '000
NOP	722	131,581	NOP	-134	-20,887
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	138,160	6,579	5	-21,931	-1,044
10	144,739	13,158	10	-22,976	-2,089
15	151,318	19,737	15	-24,020	-3,133

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 Board 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.

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 capital ratios to be maintained by the Bank are as follows:

Components of Capital	Banks with Assets Less than 500 Bn.		Banks with Assets above 500 Bn.	
	With effect from 1 January 2018	With effect from 1 January 2019	With effect from 1 January 2018	With effect from 1 January 2019
Common equity Tier 1 Capital Ratio	6.375%	7.000%	7.375%	8.500%
Total Tier 1 Capital Ratio	7.875%	8.500%	8.875%	10.000%
Total Capital Ratio	11.875%	12.500%	12.875%	14.000%

The Bank and the Group Capital Adequacy (Basel III) details as at 31 December are given below:

Assets	2018		2017	
	Bank LKR Mn.	Group LKR Mn.	Bank LKR Mn.	Group LKR Mn.
Total risk-weighted amount	328,331	331,083	275,070	277,069
Risk weighted amount of off-balance sheet exposure	24,665	24,663	19,539	19,606
Capital				
Common equity Tier 1 Capital	33,487	34,325	30,687	31,572
Total Tier 1 Capital	33,487	34,325	30,687	31,572
Total Capital	43,683	44,371	36,451	37,286
Capital adequacy ratios				
Common equity Tier 1 capital ratio (%)	10.20	10.37	11.16	11.39
Tier 1 Capital (%)	10.20	10.37	11.16	11.39
Total Capital ratio (%)	13.30	13.40	13.25	13.46

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 5.4.4. 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 risk premiums 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 operations 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:

	2018			2017		
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000
Financial assets measured at fair value through profit or loss and other comprehensive income						
Financial assets measured at fair value through profit or loss/ held for trading	3,061,557	1,856,779	-	6,384,300	1,554,913	-
Derivative financial instruments	-	1,676,958	-	-	60,165	-
Financial assets measured at fair value through other comprehensive income/available for sale	50,994,192	6,985,621	790,907	46,469,249	6,379,125	658,663
Financial liabilities measured at fair value through profit or loss						
Derivative financial instruments	-	145,339	-	-	571,557	-

I. LEVEL 3 FAIR VALUE MEASUREMENTS

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:

	2018 LKR '000	2017 LKR '000
Financial assets measured at fair value through other comprehensive income/available for sale (Level 3)		
Balance as at 1 January	658,663	493,826
Total fair value gain in other comprehensive income	132,244	164,837
Balance as at 31 December	790,907	658,663

II. UNOBSERVABLE INPUTS USED IN MEASURING FAIR VALUE

The table below sets out information about significant unobservable inputs used as at 31 December 2018 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Type of financial instrument	Fair values as at 31 December 2018 LKR '000	Valuation technique	Significant unobservable input	Fair value measurement sensitivity to unobservable inputs
Investment in unquoted equities	790,907	Net assets per share	Price to Book Value Ratio (PBV)	10% increase of PBV would increase the fair value by 10%

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 2018		31 December 2017	
	Carrying value LKR '000	Fair value LKR '000	Carrying value LKR '000	Fair value LKR '000
Financial assets				
Cash and cash equivalents	12,573,611	12,573,611	8,319,384	8,319,384
Balances with Central Bank of Sri Lanka	18,472,275	18,472,275	19,119,843	19,119,843
Placements with banks and finance companies	-	-	1,455,115	1,455,115
Financial assets at amortised cost – loans and advances	326,882,538	326,487,617	280,861,907	279,481,587
Financial assets at amortised cost – debt and other instruments	29,593,496	29,349,677	23,280,633	23,913,073
Other financial assets	6,106,130	6,106,130	4,922,113	4,922,113
Financial liabilities				
Due to banks	26,378,781	26,378,781	27,052,972	27,052,972
Due to depositors	357,560,187	357,560,187	307,098,902	307,098,902
Due to debt securities holders	21,094,525	21,094,525	16,631,973	16,631,973
Due to other borrowers	32,018	32,018	22,396	22,396
Debt securities issued	16,329,400	15,061,394	12,494,025	12,755,428
Other financial liabilities	7,796,332	7,796,332	5,154,901	5,154,901

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 2018	Level I LKR '000	Level II LKR '000	Level III LKR '000	Total LKR '000
Financial assets				
Cash and cash equivalents	-	12,573,611	-	12,573,611
Balances with Central Bank of Sri Lanka	-	18,472,275	-	18,472,275
Placements with banks and finance companies	-	-	-	-
Financial assets at amortised cost – loans and advances	-	-	326,487,617	326,487,617
Financial assets at amortised cost – debt and other instruments	20,106,849	8,573,911	668,917	29,349,677
Other financial assets	-	-	6,106,130	6,106,130
Financial liabilities				
Due to banks	-	-	26,378,781	26,378,781
Due to depositors	-	-	357,560,187	357,560,187
Due to debt securities holders	-	21,094,525	-	21,094,525
Due to other borrowers	-	-	32,018	32,018
Debt securities issued	-	15,061,394	-	15,061,394
Other financial liabilities	-	-	7,796,332	7,796,332

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 ADVANCES

Approximately 65% of the total portfolio of loans and advances to customers has a remaining contractual maturity of less than one year.

The fair value of loans and advances with a maturity of more than one year is the present value of future cash flows expected to be received from such loans and advances calculated based on interest rates at the reporting date for similar types of loans and advances. Such loans include both fixed and floating rate loans. Majority of the floating rate loans can be re priced 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 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 leases as at 31 December 2018 was LKR 18,509 Mn. as against the carrying value which amounted to LKR 18,904 Mn.

DEBT SECURITIES AT AMORTISED COST

For the disclosure purpose the Bank has calculated the fair value of debt securities measured at amortised cost based on price formula applicable to such instruments at the reporting date. For the debentures measured at amortised cost 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 40% 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 of floating rate instruments. Therefore fair value of amounts due to banks approximate to the carrying value as at the reporting date.

DEPOSITS

More than 93% 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 pre mature upliftment. Amounts paid to customers in the event of pre mature 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 15,061 Mn. as at 31 December 2018 as against its carrying value which amounted to LKR 16,329 Mn.

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
6. GROSS INCOME				
Interest income (Note 7.1)	49,229,214	43,548,912	49,230,380	43,554,949
Fee and commission income (Note 8.1)	4,252,240	3,952,760	4,251,808	3,952,557
Net gains/(losses) from trading/Net fair value gains (losses) from financial instruments at fair value through profit or loss (Note 9)	961,832	(38,911)	961,634	(40,103)
Net gains/(losses) from derecognition of financial assets (Note 10)	51,936	358,636	51,936	358,636
Net other operating income (Note 11)	377,308	1,339,879	348,835	1,870,317
Total gross income	54,872,530	49,161,276	54,844,593	49,696,356

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
7. NET INTEREST INCOME				
7.1 INTEREST INCOME				
Placements with banks	37,930	19,963	37,930	19,963
Financial assets recognised through profit or loss/held for trading				
– Measured at fair value				
Government securities* (Note 7.3)	237,501	57,597	237,501	57,597
Financial assets at amortised cost				
– Loans and advances**	40,924,219	34,812,618	40,921,683	34,812,506
– Debt and other instruments				
Government securities* (Note 7.3)	2,399,247	2,635,789	2,399,247	2,635,833
Debt instruments	82,840	137,032	85,931	140,548
Financial investments measured at fair value through other comprehensive income/available for sale				
Government securities* (Note 7.3)	5,046,020	5,458,423	5,046,020	5,458,423
Debt instruments	20,074	71,712	20,074	73,720
Other***	481,383	355,778	481,994	356,359
Total interest income	49,229,214	43,548,912	49,230,380	43,554,949
7.2 INTEREST EXPENSES				
Due to banks	2,623,599	2,416,811	2,624,025	2,416,995
Financial liabilities at amortised cost				
– Due to depositors	26,321,155	23,253,983	26,297,498	23,192,355
– Due to debt securities holders (Note 7.3)	767,809	966,998	767,809	966,362
– Due to other borrowers	1,122	933	1,122	933
Debt securities issued	1,768,533	1,419,054	1,749,839	1,403,304
Total interest expenses	31,482,218	28,057,779	31,440,293	27,979,949
Net interest income	17,746,996	15,491,133	17,790,087	15,575,000

* According to Section 137 of the Inland Revenue Act No. 10 of 2006, Bank has recognised a notional credit under interest income for the value of LKR 161,952,126.00 up to 31 March 2018 (LKR 665,036,053.00 for the year 2017). Bank's entitlement to claim notional tax credits on the interest income derived from government securities traded at the secondary market transactions has been removed with effect from 1 April 2018 by the Inland Revenue Act No. 24 of 2017.

** Interest Income on Loans and Advances includes interest accrued on impaired loans of LKR 536,082,704.00 in 2018, (LKR 326,532,244.00 for 2017).

*** Comprises interest subsidy on the Special Deposit Scheme for Citizens over 60 years, introduced by the Government of Sri Lanka.

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
7.3 NET INTEREST INCOME FROM SRI LANKA GOVERNMENT SECURITIES				
Interest income	7,682,768	8,151,809	7,682,768	8,151,853
Less: Interest expenses	767,809	966,998	767,809	966,362
Net interest income from Sri Lanka Government Securities	6,914,959	7,184,811	6,914,959	7,185,491

	Banking		Treasury		Property/ investments		Unallocated/ eliminations		Total	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
8. NET FEE AND COMMISSION INCOME										
8.1 FEE AND COMMISSION INCOME										
<i>Comprising</i>										
Bank										
Loans	743,378	957,095	-	-	-	-	155	4	743,533	957,099
Cards	1,242,974	998,177	-	-	-	-	1	9	1,242,975	998,186
Trade and remittances	773,007	752,324	-	1	-	-	-	2	773,007	752,327
Deposits	105,279	102,273	-	-	-	-	-	-	105,279	102,273
Guarantees	414,870	390,866	-	-	-	-	-	-	414,870	390,866
Other financial services	969,974	748,255	355	1,355	-	-	2,247	2,399	972,576	752,009
Total fee and commission income - Bank	4,249,482	3,948,990	355	1,356	-	-	2,403	2,414	4,252,240	3,952,760
Subsidiary										
Deposits*	-	-	-	-	-	-	(432)	(203)	(432)	(203)
Total fee and commission income - Group	4,249,482	3,948,990	355	1,356	-	-	1,971	2,211	4,251,808	3,952,557
<i>* Elimination of intercompany transactions.</i>										
8.2 FEE AND COMMISSION EXPENSES										
<i>Comprising</i>										
Bank										
Brokerage fees	2,268	219	12,612	22,734	-	-	-	-	14,880	22,953
Loans/cards	91,373	89,472	-	-	-	-	-	-	91,373	89,472
Other financial services	76,962	35,809	15,058	16,228	-	-	-	157	92,020	52,194
Total fee and commission expenses - Bank	170,603	125,500	27,670	38,962	-	-	-	157	198,273	164,619
Subsidiary										
Other services	-	-	-	-	4,537	5,934	-	-	4,537	5,934
Total fee and commission expenses - Group	170,603	125,500	27,670	38,962	4,537	5,934	-	157	202,810	170,553
Total net fee and commission income - Bank	4,078,879	3,823,490	(27,315)	(37,606)	-	-	2,403	2,257	4,053,967	3,788,141
Total net fee and commission income - Group	4,078,879	3,823,490	(27,315)	(37,606)	(4,537)	(5,934)	1,971	2,054	4,048,998	3,782,004

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
9. NET GAINS/(LOSSES) FROM TRADING/NET FAIR VALUE GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Derivative financial instruments				
From banks	1,087,655	(357,665)	1,087,655	(357,665)
From other customers	(5,648)	(1,553)	(5,648)	(1,553)
Financial instruments at fair value through profit or loss				
Equities	(566)	1,051	(764)	(141)
Government Securities	(119,609)	319,256	(119,609)	319,256
Total net gains/(losses) from trading/net fair value gains/(losses) from financial instruments at fair value through profit or loss	961,832	(38,911)	961,634	(40,103)

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
10. NET GAINS/(LOSSES) FROM DERECOGNITION OF FINANCIAL ASSETS				
Financial investments measured at fair value through other comprehensive income/Available for sale				
Equities	-	(9,184)	-	(9,184)
Government Securities	51,936	367,820	51,936	367,820
Total net gains/(losses) from derecognition of financial assets	51,936	358,636	51,936	358,636

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
11. NET OTHER OPERATING INCOME				
Dividend income				
Equity investments measured at fair value through profit or loss	72	24	72	24
Equity investments measured at fair value through other comprehensive income - quoted	9,184	9,782	9,184	9,782
Equity investments measured at fair value through other comprehensive income - unquoted	32,385	33,764	32,385	33,764
Investment in subsidiary	84,509	70,424	-	-
Profit on sale of property, plant and equipment	35,865	12,976	35,872	12,976
Profit on sale of assets held for sale (Note 34.1)	33,457	-	-	521,337
Foreign exchange income*	87,343	1,043,967	86,503	1,043,377
Recovery of loans written-off	94,493	168,942	94,493	168,942
Rent and other income	-	-	90,326	80,115
Total other operating income - net	377,308	1,339,879	348,835	1,870,317

* Foreign exchange income represents both revaluation gain/(loss) on the Bank's net open position and realised exchange gain/(loss) on foreign currency transactions.

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
12. IMPAIRMENT CHARGES				
Loans and advances (Note 12.1)	3,516,040	1,495,825	3,516,040	1,495,825
Financial investments measured at amortised cost (Note 25.5)	(25,403)		(25,403)	
Financial investments measured at FVOCI (Note 26.7)	(38,066)		(38,057)	
Cash and cash equivalents (Note 19.1)	19,908		19,908	
Placements with banks and finance companies (Note 21.1)	(7,276)		(7,276)	
Undrawn credit commitments and financial guarantees (Note 43.3)	9,983		9,983	
Impairment provision for available for sale – Equity investments		8,871		8,871
Total impairment charges	3,475,186	1,504,696	3,475,195	1,504,696
12.1 LOANS AND ADVANCES				
Impairment charges – Stage 1 (Note 24.3.1)	(77,404)		(77,404)	
Impairment charges – Stage 2 (Note 24.3.1)	513,617		513,617	
Impairment charges – Stage 3 (Note 24.3.1)	3,069,660		3,069,660	
Net impairment loss – Individual (Note 24.3.1)		1,069,797		1,069,797
Net impairment loss – Collective (Note 24.3.1)		423,679		423,679
Loans written-off	10,167	2,349	10,167	2,349
Total impairment charges on loans and advances	3,516,040	1,495,825	3,516,040	1,495,825

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
13. OPERATING EXPENSES				
Operating expenses include the following:				
Directors' emoluments	53,711	48,764	56,153	50,979
Auditors' remunerations				
Audit fees and expenses	9,752	9,288	10,873	10,314
Audit-related fees and expenses	5,351	9,820	5,392	9,820
Non-audit services	540	3,240	540	3,263
Depreciation – freehold property, plant and equipment (Note 29)	623,662	601,313	669,522	631,677
Depreciation – leasehold rights (Note 30)	1,946	1,945	9,356	9,355
Depreciation – investment properties (Note 31)	-	-	10,775	9,949
Amortisation of intangible assets (Note 32)	120,215	92,436	120,215	92,436
Donations	1,125	3,535	1,577	3,990
Legal expenses	120,119	91,888	120,412	92,000
Sri Lanka deposit insurance fund contribution	338,843	297,259	338,843	297,259
Operating lease expenses	704,207	640,457	704,207	640,457
Crop insurance levy	31,920	45,969	31,920	45,969

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
14. PERSONNEL EXPENSES				
Personnel expenses include the following:				
Salaries and bonuses	3,926,649	3,492,332	3,946,503	3,513,573
Contribution to Employees' Provident Fund	401,426	354,475	403,512	356,774
Contribution to Employees' Trust Fund	100,357	88,618	100,878	89,193
Provision for defined benefit obligations (Note 43.1.6)	81,535	30,764	81,015	30,304
Amortisation of prepaid staff cost	247,541	246,519	247,815	246,433
Other staff-related expenses	1,024,825	983,155	1,036,804	992,513
Total personnel expenses	5,782,333	5,195,863	5,816,527	5,228,790

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
15. INCOME TAX EXPENSE				
The components of income tax expense for the years ended 31 December 2018 and 2017 are:				
15.1 INCOME TAX EXPENSE RECOGNISED IN INCOME STATEMENT				
15.1.1 CURRENT TAX EXPENSE				
- Income tax on current year's profits (Note 15.2)	2,039,561	2,068,743	2,039,561	2,102,912
- (Over provision)/under provision in respect of previous years	-	(57,477)	61	(57,477)
	2,039,561	2,011,266	2,039,622	2,045,435
15.1.2 DEFERRED TAXATION				
- Effects of change in tax rates	-	-	-	-
- Temporary differences (Note 33)	(562,515)	214,787	(503,354)	235,857
- Prior year provision	-	-	-	-
	(562,515)	214,787	(503,354)	235,857
Total income tax expense	1,477,046	2,226,053	1,536,268	2,281,292

- i. Current tax on profits has been computed at the rate of 28% on the taxable income arising from banking and leasing businesses.
- ii. Leasing has been deemed as blended loans by the Inland Revenue Act No. 24 of 2017 enabling bank to treat leasing business under the business of banking.
- iii. The subsidiary has computed taxation based on the rate 28% - standard rate applicable for companies.

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
15.2 RECONCILIATION OF THE ACCOUNTING PROFIT TO INCOME TAX EXPENSE				
Profit before income tax	4,666,252	6,656,451	4,687,124	7,284,923
Less: Profit/(loss) from leasing business	(429,274)	42,317	(429,274)	42,317
Profit from banking business	5,095,526	6,614,134	5,116,398	7,242,606
Add: Disallowable expenses	7,366,857	2,683,955	7,550,691	2,866,677
Less: Allowable expenses	4,293,665	1,095,549	4,314,535	1,646,518
Exempt income	(266,763)	(814,171)	(266,763)	(948,088)
Business income	7,901,955	7,388,369	8,085,791	7,514,677
Income from other sources	-	-	-	62,308
Business income from banking activities	7,901,955	7,388,369	8,085,791	7,576,985
Business income/(loss) from leasing activities (Note 15.3)	(389,811)	(227,998)	(389,811)	(227,998)
Total statutory income	7,512,144	7,160,371	7,695,980	7,348,987
Add: Tax losses incurred for the year - leasing (Note 15.3)	389,811	227,998	389,811	227,998
Less: Tax losses set-off (Note 15.3)	617,809	-	801,643	66,135
Assessable income	7,284,146	7,388,369	7,284,148	7,510,850
Qualifying payments	-	-	-	(450)
Taxable income	7,284,146	7,388,369	7,284,148	7,510,400
Income tax on current year's profit	2,039,561	2,068,743	2,039,561	2,102,912
(Over)/under provision in respect of previous years	-	(57,477)	61	(57,477)
Transfer to deferred taxation (Note 15.4)	(562,515)	214,787	(503,354)	235,857
Total income tax expense	1,477,046	2,226,053	1,536,268	2,281,292
Effective income tax rate (Note 15.5) (%)	32	33	33	31
Effective current tax rate - (Excluding deferred tax) (%)*	44	30	44	28

* The difference of effective income tax rate and effective current tax rate attributes to the temporary differences from additional gratuity and impairment.

2018
%

Income tax rates on

a. Domestic operations of the Bank	28
b. Foreign Currency Banking Unit of the Bank (on-shore operations and off-shore operations)	28
c. Seylan Developments PLC	28

	Bank				Group			
	2018		2017		2018		2017	
	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 on-shore profits - 28%	7,276,616	2,037,453	7,382,119	2,066,993	7,276,618	2,037,453	7,504,150	2,101,162
Off-shore profits - 28%	7,530	2,108	6,250	1,750	7,530	2,108	6,250	1,750
	7,284,146	2,039,561	7,388,369	2,068,743	7,284,148	2,039,561	7,510,400	2,102,912

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
15.3 TAX LOSSES BROUGHT FORWARD				
Tax losses brought forward		227,998	1,005,092	843,229
Add: Tax losses incurred during the year	389,811	227,998	389,811	227,998
Less: Tax losses utilised during the year	617,809	-	801,643	66,135
Less: Tax losses disallowed to be carried forward	-	-	-	-
Unutilised tax losses carried forward	-	227,998	593,260	1,005,092
15.4 DEFERRED TAX EXPENSE/(INCOME)				
Deferred tax - liability				
Property, plant and equipment	(94,204)	64,098	(86,517)	66,651
Lease rentals	(190,555)	168,055	(190,555)	168,055
Revaluation gain brought forward	-	-	-	-
	(284,759)	232,153	(277,072)	234,706
Deferred tax - assets				
Leave encashment provision	(1,178)	20,223	(1,178)	20,223
Other provisions	3,819	26,250	3,819	26,250
Additional gratuity	(251,292)	-	(251,292)	-
Tax losses carried forward	63,839	(63,839)	115,313	(45,322)
Expected credit loss-impairment	(92,944)	-	(92,944)	-
	(277,756)	(17,366)	(226,282)	1,151
Other temporary differences	-	-	-	-
Transfer to deferred taxation	(562,515)	214,787	(503,354)	235,857

	Bank				Group			
	2018		2017		2018		2017	
	%	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000
15.5 RECONCILIATION OF EFFECTIVE TAX RATE								
Profit before income tax	-	4,666,252	-	6,656,451	-	4,687,124	-	7,284,923
Income tax for the period	28	1,306,551	28	1,863,806	28	1,312,395	28	2,039,778
Tax effect of expenses that are not deductible for tax purposes	45	2,062,720	11	751,507	46	2,114,193	11	802,670
Tax effect of expenses that are deductible for tax purposes	(26)	(1,202,226)	(5)	(306,754)	(26)	(1,208,070)	(6)	(461,025)
Exempt income	(2)	(74,694)	(3)	(227,968)	(2)	(74,694)	(4)	(265,465)
Income from other sources	-	-	-	-	-	-	-	17,446
Business income from leasing activities	(2)	(109,147)	(1)	(63,839)	(2)	(109,147)	(1)	(63,839)
Adjustments/tax losses	1	56,357	1	51,991	-	4,884	1	33,473
Qualifying payments	-	-	-	-	-	-	-	(126)
(Over)/under provision in respect of previous years	-	-	-	-	-	61	-	-
Adjustments in respect of current income tax of prior periods	-	-	(1)	(57,477)	-	-	(1)	(57,477)
Deferred taxation	(12)	(562,515)	3	214,787	(11)	(503,354)	3	235,857
Total income tax expense (Note 15.2)	32	1,477,046	33	2,226,053	33	1,536,268	31	2,281,292

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 years ended 31 December 2018 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	
	2018	2017 Restated	2018	2017 Restated
Total profit after tax attributable to equity holders of the Bank (LKR '000)	3,189,206	4,430,398	3,137,243	4,816,834
Weighted average number of ordinary shares as at 31 December - Bank ('000) (Note 16.2)	366,099	366,099	366,099	366,099
Basic/diluted earnings per share (LKR)	8.71	12.10	8.57	13.16
16.1 BASIC/DILUTED EARNINGS PER SHARE EXCLUDING ADDITIONAL GRATUITY EXPENSE				
Total profit after tax excluding additional gratuity expense attributable to equity holders of the Bank (LKR '000)	4,006,241		3,954,278	
Basic/diluted earnings per share excluding additional gratuity expense (LKR)	10.94		10.80	

	2018		2017	
	Outstanding	Weighted average	Outstanding	Weighted average restated
16.2 WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR EARNINGS PER SHARE				
Number of shares held as at 1 January	354,456,106	354,456,106	344,960,410	344,960,410
Add: Number of shares issued due to scrip dividend	11,642,986	11,642,986	9,495,696	9,495,696
Number of shares held as at 31 December	366,099,092	366,099,092	354,456,106	354,456,106
Restatement due to subsequent scrip issue				11,642,986
Weighted average number of ordinary shares as at 31 December		366,099,092		366,099,092

Weighted average number of ordinary shares as at 31 December 2017 has been restated based on the number of shares issued for scrip dividend 2017 as per Sri Lanka Accounting Standard (LKAS 33) – “Earnings per Share”.

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
17. DIVIDENDS				
Ordinary share dividends				
Net dividend paid				
Cash dividends	332,117	320,664	332,117	320,664
Scrip dividends	797,526	698,545	797,526	698,545
Tax deducted at source	110,953	101,912	110,953	101,912
Gross dividend	1,240,596	1,121,121	1,240,596	1,121,121

The Board of Directors of the Bank has recommended the payment of a final dividend of LKR 2.50 per share for both voting and non-voting ordinary shareholders of the Bank to be paid by way of LKR 0.50 cash dividend per share and LKR 2.00 scrip dividend per share for the year ended 31 December 2018 (Bank declared a final dividend of LKR 3.50 per share for 2017 by way of LKR 1.00 cash dividend per share and LKR 2.50 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 28 March 2019. Final dividend proposed for the year 2018 amounts to LKR 915,247,730.00 (LKR 1,240,596,371.00 for 2017).

In accordance with provisions of the Sri Lanka Accounting Standard (LKAS 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

Classification of financial assets and liabilities as per SLFRS 9 – “Financial Instruments”

	2018			
	Financial assets measured at fair value through profit or loss (FVTPL) LKR '000	Financial assets measured at fair value through other comprehensive income (FVOCI) LKR '000	Financial assets measured at amortised cost LKR '000	Total LKR '000
Assets				
Cash and cash equivalents	-	-	12,573,611	12,573,611
Balances with Central Bank of Sri Lanka	-	-	18,472,275	18,472,275
Placements with banks and finance companies	-	-	-	-
Derivative financial instruments	1,676,958	-	-	1,676,958
Securities purchased under resale agreements	-	-	5,462,167	5,462,167
Customer loans and advances	-	-	326,882,538	326,882,538
Debt instruments	-	118,012	752,003	870,015
Equity instruments	-	1,660,158	-	1,660,158
Government Securities	4,918,336	56,992,550	23,379,326	85,290,212
Group balances receivable	-	-	40,600	40,600
Other financial assets	-	-	6,106,130	6,106,130
Total financial assets	6,595,294	58,770,720	393,668,650	459,034,664
	Financial liabilities measured at fair value through profit or loss (FVTPL) LKR '000	Financial liabilities measured at amortised cost LKR '000	Total LKR '000	
Liabilities				
Due to banks	-	26,378,781	26,378,781	
Derivative financial instruments	145,339	-	145,339	
Due to depositors	-	357,560,187	357,560,187	
Securities sold under repurchase agreements	-	21,094,525	21,094,525	
Due to other borrowers	-	32,018	32,018	
Group balances payable	-	211,686	211,686	
Debt securities issued	-	16,329,400	16,329,400	
Other financial liabilities	-	7,796,332	7,796,332	
Total financial liabilities		145,339	429,402,929	429,548,268

Classification of financial assets and liabilities as per LKAS 39 – “Financial Instruments : Recognition and Measurement”

	2017				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	-	-	8,319,384	-	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
Securities purchased under resale agreements	-	-	1,750,855	-	1,750,855
Customer loans and advances	-	-	280,861,907	-	280,861,907
Debt instruments	-	864,701	-	313,019	1,177,720
Equity instruments	3,719	-	-	1,753,152	1,756,871
Government Securities	7,935,494	20,665,077	-	51,440,866	80,041,437
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
Due to depositors	-	307,098,902	307,098,902
Securities sold under repurchase agreements	-	16,631,973	16,631,973
Due to other borrowers	-	22,396	22,396
Group balances payable	-	1,145,110	1,145,110
Debt securities issued	-	12,494,025	12,494,025
Other financial liabilities	-	5,154,901	5,154,901
Total financial liabilities	571,557	369,600,279	370,171,836

18.2 GROUP

Classification of financial assets and liabilities as per SLFRS 9 - "Financial Instruments"

	2018			Total LKR '000
	Financial assets measured at fair value through profit or loss (FVTPL) LKR '000	Financial assets measured at fair value through other comprehensive income (FVOCI) LKR '000	Financial assets measured at amortised cost LKR '000	
Assets				
Cash and cash equivalents	-	-	12,573,651	12,573,651
Balances with Central Bank of Sri Lanka	-	-	18,472,275	18,472,275
Placements with banks and finance companies	-	-	-	-
Derivative financial instruments	1,676,958	-	-	1,676,958
Securities purchased under resale agreements	-	-	5,462,167	5,462,167
Customer loans and advances	-	-	326,882,538	326,882,538
Debt instruments	-	166,896	752,003	918,899
Equity instruments	5,151	1,660,158	-	1,665,309
Government Securities	4,918,336	56,992,550	23,379,326	85,290,212
Other financial assets	-	-	6,136,198	6,136,198
Total financial assets	6,600,445	58,819,604	393,658,158	459,078,207

	Financial liabilities measured at fair value through profit or loss (FVTPL) LKR '000	Financial liabilities measured at amortised cost LKR '000	Total LKR '000
Liabilities			
Due to banks	-	26,378,781	26,378,781
Derivative financial instruments	145,339	-	145,339
Due to depositors	-	357,560,187	357,560,187
Securities sold under repurchase agreements	-	21,094,525	21,094,525
Due to other borrowers	-	32,018	32,018
Debt securities issued	-	16,329,400	16,329,400
Other financial liabilities	-	7,827,090	7,827,090
Total financial liabilities	145,339	429,222,001	429,367,340

Classification of financial assets and liabilities as per LKAS 39 – "Financial Instruments: Recognition and Measurement"

	2017				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	-	-	8,319,424	-	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
Securities purchased under resale agreements	-	-	1,750,855	-	1,750,855
Customer loans and advances	-	-	280,861,907	-	280,861,907
Debt instruments	-	864,701	-	313,019	1,177,720
Equity instruments	9,068	-	-	1,753,152	1,762,220
Government Securities	7,935,494	20,665,077	-	51,440,866	80,041,437
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
Due to depositors			-	307,098,902	307,098,902
Securities sold under repurchase agreements			-	16,631,973	16,631,973
Due to other borrowers			-	22,396	22,396
Debt securities issued			-	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

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
19. CASH AND CASH EQUIVALENTS				
Cash in hand – local currency	7,405,769	7,132,098	7,405,809	7,132,138
Cash in hand – foreign currency	223,393	199,714	223,393	199,714
Balances with local banks	40,697	15,641	40,697	15,641
Balances with foreign banks	4,928,598	971,931	4,928,598	971,931
Total cash and cash equivalents	12,598,457	8,319,384	12,598,497	8,319,424
Expected credit loss allowance (Note 19.1)	(24,846)	-	(24,846)	-
Total cash and cash equivalents – net	12,573,611	8,319,384	12,573,651	8,319,424

19.1 MOVEMENT IN EXPECTED CREDIT LOSS ALLOWANCE DURING THE YEAR

STAGE 1

	Bank LKR '000	Group LKR '000
Balance as at 1 January 2018	-	-
Adjustment on initial application of SLFRS 9 (Note 56.1)	4,938	4,938
Adjusted balance as at 1 January 2018	4,938	4,938
Charge/(write back) to income statement	19,908	19,908
Balance as at 31 December 2018	24,846	24,846

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 6% (6% for the period from 16 November 2018 to 31 December 2018 and 7.5% from 1 January 2017 to 15 November 2018) of the rupee deposit liabilities to be maintained with Central Bank of Sri Lanka.

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Statutory balances with the Central Bank of Sri Lanka	18,472,275	19,119,843	18,472,275	19,119,843
Total balances with Central Bank of Sri Lanka	18,472,275	19,119,843	18,472,275	19,119,843

21. PLACEMENTS WITH BANKS AND FINANCE COMPANIES

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Term deposits with banks	-	1,455,115	-	1,455,115
Term deposits with finance companies	-	-	498	498
Total placements with banks and finance companies	-	1,455,115	498	1,455,613
Expected credit loss allowance (Note 21.1)	-	-	(498)	(498)
Total placements with banks and finance companies - net	-	1,455,115	-	1,455,115

21.1 MOVEMENT IN EXPECTED CREDIT LOSS ALLOWANCE DURING THE YEAR

STAGE 1

	Bank LKR '000	Group LKR '000
Balance as at 1 January 2018	-	498
Adjustment on initial application of SLFRS 9 (Note 56.1)	7,276	7,276
Adjusted balance as at 1 January 2018	7,276	7,774
Charge/(write back) to Income Statement	(7,276)	(7,276)
Balance as at 31 December 2018	-	498

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
22. DERIVATIVE FINANCIAL INSTRUMENTS				
22.1 DERIVATIVE ASSETS				
Foreign currency derivatives				
Forward foreign exchange contracts				
- Designated as cash flow hedges (Note 22.2.1)	925,116	-	925,116	-
- Not designated as cash flow hedges	751,842	60,165	751,842	60,165
	1,676,958	60,165	1,676,958	60,165
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	145,339	390,330	145,339	390,330
	145,339	571,557	145,339	571,557

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:

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Instrument type				
Forward foreign exchange contracts	925,116	(181,227)	925,116	(181,227)
	925,116	(181,227)	925,116	(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 2018	USD 41 Mn.	-	-
31 December 2017	USD 38 Mn.	-	-

	2018		2017	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
23. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS (FVTPL)/ HELD FOR TRADING				
Quoted equities (Note 23.1)	-	5,151	3,719	9,068
Government Securities - Treasury Bills	167,513	167,513	2,390,470	2,390,470
Government Securities - Treasury Bonds	2,894,044	2,894,044	3,990,111	3,990,111
Sri Lanka Development Bonds	1,856,779	1,856,779	1,554,913	1,554,913
Total financial assets measured at FVTPL	4,918,336	4,923,487	7,939,213	7,944,562

	2018			2017		
	Number of ordinary equities	Cost LKR '000	Fair value LKR '000	Number of ordinary equities	Cost LKR '000	Fair value LKR '000
23.1 QUOTED EQUITIES						
Construction and engineering						
Access Engineering PLC	-	-	-	47,500	1,194	1,121
Manufacturing						
Textured Jersey Lanka PLC	-	-	-	76,400	2,849	2,598
Total equity investments measured at FVTPL – Bank		-	-		4,043	3,719
Banks finance and insurance						
Commercial Leasing & Finance Company PLC	1,981,038	9,905	5,151	1,981,038	9,905	5,349
Total equity investments measured at FVTPL – Subsidiary		9,905	5,151		9,905	5,349
Total equity investments measured at FVTPL – Group		9,905	5,151		13,948	9,068
Marked to market valuation loss*		(4,754)			(4,880)	

	2018		2017	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
23.2 ANALYSIS OF FINANCIAL ASSETS MEASURED AT FVTPL/HELD FOR TRADING				
23.2.1 BY CURRENCY				
Sri Lankan rupee	3,061,557	3,066,708	6,384,300	6,389,649
United States dollar	1,856,779	1,856,779	1,554,913	1,554,913
Total financial assets measured at FVTPL	4,918,336	4,923,487	7,939,213	7,944,562
23.2.2 BY COLLATERALISATION				
Pledged as collateral	771,211	771,211	21,905	21,905
Unencumbered	4,147,125	4,152,276	7,917,308	7,922,657
Total financial assets measured at FVTPL	4,918,336	4,923,487	7,939,213	7,944,562

	2018		2017	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
23.3 FAIR VALUE CONSISTS OF				
Total cost/amortised cost	5,091,207	5,101,112	7,912,659	7,922,564
Marked to market valuation gain/(loss)*	(172,871)	(177,625)	26,554	21,998
Total fair value	4,918,336	4,923,487	7,939,213	7,944,562

* Marked to market valuation gain/(loss) of financial assets measured at fair value through profit and loss is included in net gains/(losses) from trading/net fair value gains/(losses) from financial instruments at fair value through profit or loss (Note 9).

24. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES

Gross loans and advances

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Stage 1	297,528,951		297,528,951	
Stage 2	16,810,638		16,810,638	
Stage 3	22,435,481		22,435,481	
Gross loans and advances	336,775,070	286,469,373	336,775,070	286,469,373
Less: Expected credit loss/impairment allowance under; (Note 24.3.1)				
Stage 1	598,268		598,268	
Stage 2	820,746		820,746	
Stage 3	8,473,518		8,473,518	
Individual impairment		1,744,089		1,744,089
Collective impairment		3,863,377		3,863,377
Total expected credit loss/impairment allowance for loans and advances	9,892,532	5,607,466	9,892,532	5,607,466
Total loans and advances - net	326,882,538	280,861,907	326,882,538	280,861,907

24.1 ANALYSIS OF GROSS LOANS AND ADVANCES

24.1.1 BY PRODUCT

LOCAL CURRENCY

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Export bills	-	15,359	-	15,359
Import bills	636,183	335,352	636,183	335,352
Local bills	77,844	130,330	77,844	130,330
Lease rentals receivable (Note 24.2)	18,904,050	16,222,825	18,904,050	16,222,825
Overdrafts	61,716,516	61,901,243	61,716,516	61,901,243
Revolving import loans	13,341,077	10,531,334	13,341,077	10,531,334
Packing credit loans	2,805,240	1,191,070	2,805,240	1,191,070
Trust receipt loans	2,702,264	1,812,834	2,702,264	1,812,834
Staff loans	6,497,835	6,108,917	6,497,835	6,108,917
Housing loans	15,518,085	13,401,222	15,518,085	13,401,222
Pawning receivables	11,661,946	10,046,055	11,661,946	10,046,055
Refinance loans	3,321,294	2,479,247	3,321,294	2,479,247
Credit cards	6,180,328	4,886,489	6,180,328	4,886,489
Margin trading	2,453,096	2,588,413	2,453,096	2,588,413
Factoring	2,161,148	1,099,984	2,161,148	1,099,984
Term loans	151,140,641	125,086,423	151,140,641	125,086,423
Rupee gross loans and advances	299,117,547	257,837,097	299,117,547	257,837,097

FOREIGN CURRENCY

Export bills	3,538,191	3,164,298	3,538,191	3,164,298
Import bills	407,074	459,456	407,074	459,456
Local bills	42,947	44,659	42,947	44,659
Overdrafts	972,118	886,908	972,118	886,908
Revolving import loans	394,283	442,327	394,283	442,327
Packing credit loans	8,570,902	9,555,196	8,570,902	9,555,196
Housing loans	171,441	98,917	171,441	98,917
Term loans	23,560,567	13,980,515	23,560,567	13,980,515
Foreign currency gross loans and advances	37,657,523	28,632,276	37,657,523	28,632,276
Total gross loans and advances	336,775,070	286,469,373	336,775,070	286,469,373

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
24.1.2 BY CURRENCY				
Sri Lankan Rupee	299,117,547	257,837,097	299,117,547	257,837,097
United States Dollar	37,157,712	28,015,017	37,157,712	28,015,017
Euro	266,686	302,195	266,686	302,195
Great Britain Pound	200,877	229,347	200,877	229,347
Australian Dollar	26,818	29,572	26,818	29,572
Japanese Yen	5,430	36,608	5,430	36,608
New Zealand Dollar	-	12,512	-	12,512
Singapore Dollar	-	7,013	-	7,013
Canadian Dollar	-	12	-	12
Total gross loans and advances	336,775,070	286,469,373	336,775,070	286,469,373

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
24.1.3 BY INDUSTRY				
Agriculture, forestry and fishing	37,625,509	29,729,429	37,625,509	29,729,429
Manufacturing	37,198,335	35,737,527	37,198,335	35,737,527
Tourism	16,252,297	17,415,111	16,252,297	17,415,111
Transportation and storage	9,742,348	10,828,490	9,742,348	10,828,490
Construction	41,440,151	33,179,605	41,440,151	33,179,605
Infrastructure development	3,323,194	2,641,002	3,323,194	2,641,002
Wholesale and retail trade	60,397,918	54,488,626	60,397,918	54,488,626
Information technology and communication services	1,256,461	1,892,504	1,256,461	1,892,504
Financial services	42,432,898	33,226,017	42,432,898	33,226,017
Professional, scientific, and technical activities	3,530,132	1,783,204	3,530,132	1,783,204
Arts, entertainment, and recreation	721,142	648,000	721,142	648,000
Education	1,571,342	714,741	1,571,342	714,741
Healthcare, social services, and support services	11,315,050	1,846,831	11,315,050	1,846,831
Consumption	67,495,527	61,458,264	67,495,527	61,458,264
Lending to Ministry of Finance	-	-	-	-
Lending to overseas entities	2,472,766	880,022	2,472,766	880,022
Total gross loans and advances	336,775,070	286,469,373	336,775,070	286,469,373

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
24.2 LEASE RENTALS RECEIVABLE				
Lease rentals receivable within one year (Note 24.2.1)	6,612,252	6,229,740	6,612,252	6,229,740
Lease rentals receivable later than one year and not later than five years (Note 24.2.2)	12,243,973	9,940,360	12,243,973	9,940,360
Lease rentals receivable later than five years (Note 24.2.3)	47,825	52,725	47,825	52,725
	18,904,050	16,222,825	18,904,050	16,222,825
24.2.1 LEASE RENTALS RECEIVABLE WITHIN ONE YEAR				
Gross lease rentals receivable	9,006,124	8,180,063	9,006,124	8,180,063
Unearned income	(2,393,872)	(1,950,323)	(2,393,872)	(1,950,323)
	6,612,252	6,229,740	6,612,252	6,229,740
24.2.2 LEASE RENTALS RECEIVABLE LATER THAN ONE YEAR AND NOT LATER THAN FIVE YEARS				
Gross lease rentals receivable	14,805,716	12,009,099	14,805,716	12,009,099
Deposits of rentals	(53,005)	(137,084)	(53,005)	(137,084)
Unearned income	(2,508,738)	(1,931,655)	(2,508,738)	(1,931,655)
	12,243,973	9,940,360	12,243,973	9,940,360

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
24.2.3 LEASE RENTALS RECEIVABLE LATER THAN FIVE YEARS				
Gross lease rentals receivable	52,557	59,080	52,557	59,080
Unearned income	(4,732)	(6,355)	(4,732)	(6,355)
	47,825	52,725	47,825	52,725

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
24.3 MOVEMENT IN EXPECTED CREDIT LOSS/ IMPAIRMENT ALLOWANCE ON LOANS AND ADVANCES				
Balance as at 1 January	5,607,466	6,052,985	5,607,466	6,052,985
Adjustment on initial application of SLFRS 9 (Note 56.1)	2,095,203		2,095,203	
Adjusted balance as at 1 January	7,702,669	6,052,985	7,702,669	6,052,985
Net expected credit loss/impairment during the year	3,505,873	1,493,476	3,505,873	1,493,476
Reversal for write-off during the year	(779,928)	(1,612,463)	(779,928)	(1,612,463)
Interest accrued on impaired loans and advances	(536,082)	(326,532)	(536,082)	(326,532)
Balance as at 31 December	9,892,532	5,607,466	9,892,532	5,607,466

24.3.1 MOVEMENTS IN EXPECTED CREDIT LOSS/ IMPAIRMENT ALLOWANCE DURING THE YEAR

STAGE 1

Opening balance as at 1 January	675,672	675,672
Charge/(Write back) to income statement	(77,404)	(77,404)
Closing balance as at 31 December	598,268	598,268

STAGE 2

Opening balance as at 1 January	307,129	307,129
Charge/(Write back) to income statement	513,617	513,617
Closing balance as at 31 December	820,746	820,746

STAGE 3

Opening balance as at 1 January	6,719,868	6,719,868
Charge/(Write back) to income statement	3,069,660	3,069,660
Reversal for write-off during the year	(779,928)	(779,928)
Interest accrued on impaired loans and advances	(536,082)	(536,082)
Closing balance as at 31 December	8,473,518	8,473,518

ALLOWANCE FOR INDIVIDUAL IMPAIRMENT

Balance as at 1 January	2,420,888	2,420,888
Net impairment during the year	1,069,797	1,069,797
Reversal for write-off during the year	(1,413,347)	(1,413,347)
Interest accrued on impaired loans and advances	(326,532)	(326,532)
Net transfer to collective impairment	(6,717)	(6,717)
Balance as at 31 December	1,744,089	1,744,089

ALLOWANCE FOR COLLECTIVE IMPAIRMENT

Balance as at 1 January	3,632,097	3,632,097
Net impairment during the year	423,679	423,679
Reversal for write-off during the year	(199,116)	(199,116)
Net transfer from individual impairment	6,717	6,717
Balance as at 31 December	3,863,377	3,863,377

	Bank/Group	
	2018 LKR '000	2017 LKR '000
25. FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS		
Government Securities - Treasury Bonds	20,356,443	17,658,702
Sri Lanka Development Bonds	3,032,380	3,006,375
Quoted debentures (Note 25.1)	81,140	193,956
Unquoted debentures (Note 25.2)	671,089	670,745
Securities purchased under resale agreements	5,462,167	1,750,855
Total financial assets measured at amortised cost	29,603,219	23,280,633
Expected credit loss allowance (Note 25.5)	(9,723)	
Total financial assets measured at amortised cost - net	29,593,496	23,280,633

	2018 LKR '000	2017 LKR '000
25.1 QUOTED DEBENTURES		
LB Finance PLC (445,200 debentures of LKR 100.00 each)	-	45,049
Richard Pieris and Company PLC (659,300 debentures of LKR 100.00 each)	-	67,758
Richard Pieris and Company PLC (515,000 debentures of LKR 100.00 each)	52,960	52,960
Hemas Holdings PLC (274,200 debentures of LKR 100.00 each)	28,180	28,189
Total quoted debentures measured at amortised cost	81,140	193,956

	2018 LKR '000	2017 LKR '000
25.2 UNQUOTED DEBENTURES		
HNB Finance Limited	671,089	670,745
Total unquoted debentures measured at amortised cost	671,089	670,745

	Bank/Group	
	2018 LKR '000	2017 LKR '000
25.3 ANALYSIS OF FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS		
25.3.1 BY CURRENCY		
Sri Lankan Rupee	26,570,839	20,274,258
United States Dollar	3,032,380	3,006,375
Total financial assets measured at amortised cost	29,603,219	23,280,633

	Bank/Group	
	2018 LKR '000	2017 LKR '000
25.3.2 BY COLLATERALISATION		
Pledged as collateral	2,602,343	1,260,408
Unencumbered	27,000,876	22,020,225
Total financial assets measured at amortised cost	29,603,219	23,280,633

Bank/Group

LKR '000

25.4 RECONCILIATION FOR FINANCIAL ASSETS MEASURED AT AMORTISED COST – DEBT AND OTHER INSTRUMENTS

Balance as at 31 December 2017	23,280,633
Expected credit loss allowance – Adjustment on initial application of SLFRS 9 (Note 56.1)	(35,126)
Adjusted balance as at 1 January 2018	23,245,507
Net acquisitions and maturities during the year	6,322,586
Net expected credit losses during the year	25,403
Balance as at 31 December 2018	29,593,496

Bank/Group

LKR '000

25.5 MOVEMENT IN EXPECTED CREDIT LOSS ALLOWANCE DURING THE YEAR STAGE 1

Balance as at 1 January 2018	-
Adjustment on initial application of SLFRS 9 (Note 56.1)	35,126
Adjusted balance as at 1 January 2018	35,126
Charge/(write back) to income statement	(25,403)
Balance as at 31 December 2018	9,723

2018

2017

Bank
LKR '000Group
LKR '000Bank
LKR '000Group
LKR '000

26. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)/AVAILABLE FOR SALE

Quoted equities (Note 26.1)	869,251	869,251	1,094,489	1,094,489
Unquoted equities (Note 26.2)	790,907	790,907	658,663	658,663
Government Securities – Treasury Bills	3,133,044	3,133,044	1,186,430	1,186,430
Government Securities – Treasury Bonds	46,991,897	46,991,897	44,188,330	44,188,330
Sri Lanka Development Bonds	6,867,609	6,867,609	6,066,106	6,066,106
Quoted debentures (Note 26.3)	118,012	166,896	313,019	313,019
Total financial assets measured at FVOCI	58,770,720	58,819,604	53,507,037	53,507,037
Expected credit loss allowance (Note 26.7)	24,719	24,728	-	-

	2018			2017		
	Number of ordinary equities	Cost LKR '000	Fair value LKR '000	Number of ordinary equities	Cost LKR '000	Fair value LKR '000
26.1 QUOTED EQUITIES						
Banks finance and insurance						
The Finance Company PLC	1,003,163	29,393	2,006	1,003,163	29,393	5,216
Diversified holdings						
John Keells Holdings PLC	660,142	119,181	105,425	660,142	119,181	98,031
Financial services						
Visa Inc.	28,000	33,831	673,290	53,312	64,414	930,943
Hotels and travels						
John Keells Hotels PLC	3,552,311	43,693	27,708	3,552,311	43,693	31,260
Jetwing Symphony PLC	3,328,749	49,931	39,945	-	-	-
Manufacturing						
Chevron Lubricants Lanka PLC	120,407	19,329	8,766	120,407	19,329	14,328
Piramal Glass Ceylon PLC	627,401	3,842	2,384	627,401	3,842	3,639
Power and energy						
Lanka IOC PLC	395,421	18,037	9,727	395,421	18,037	11,072
Total quoted equity investments measured at FVOCI - Bank/Group		317,237	869,251		297,889	1,094,489

	2018			2017		
	Number of ordinary equities	Cost LKR '000	Fair value LKR '000	Number of ordinary equities	Cost LKR '000	Fair value LKR '000
26.2 UNQUOTED EQUITIES						
Credit Information Bureau of Sri Lanka	2,900	290	54,205	2,900	290	46,058
LankaClear (Pvt) Limited	1,000,000	10,000	125,781	1,000,000	10,000	104,753
Lanka Financial Services Bureau Limited	225,000	2,250	2,623	225,000	2,250	3,481
Transnational Lanka Records Solutions (Pvt) Limited	1,000,000	10,000	48,170	1,000,000	10,000	44,610
HNB Finance Limited*	233,200,000	2,332,000	560,128	233,200,000	2,332,000	459,761
Total unquoted equity investments measured at FVOCI - Bank		2,354,540	790,907		2,354,540	658,663
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	-
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 unquoted equity investments measured at FVOCI - Subsidiary		45,591	-		47,591	-
Total unquoted equity investments measured at FVOCI - Group		2,400,131	790,907		2,402,131	658,663

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 2017

LankaClear (Pvt) Limited - 31 March 2018

Lanka Financial Services Bureau Limited - 31 March 2018

Transnational Lanka Records Solutions (Pvt) Limited - 30 June 2018

HNB Finance Limited - 31 March 2018

* The Bank restructured its loan portfolio to HNB Finance Limited (previously known as HNB Grameen Finance Limited and before that 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 Grameen Micro Credit Company Limited (presently known as HNB Finance 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.

	2018		2017	
	Amortised cost LKR '000	Fair value LKR '000	Amortised cost LKR '000	Fair value LKR '000
26.3 QUOTED DEBENTURES				
People's Leasing & Finance PLC (1,784,531 debentures of LKR 100.00 each)	-	-	194,565	196,260
Pan Asia Banking Corporation (486,112 debentures of LKR 100.00 each)	50,072	48,839	50,097	47,873
HDFC Bank (745,300 debentures of LKR 100.00 each)	75,366	69,173	75,388	68,886
Total quoted debentures measured at FVOCI - Bank	125,438	118,012	320,050	313,019
LOLC Finance PLC (500,000 Debentures of LKR 100.00 each)	53,091	48,884	-	-
Total quoted debentures measured at FVOCI - Subsidiary	53,091	48,884	-	-
Total quoted debentures measured at FVOCI - Group	178,529	166,896	320,050	313,019

	2018		2017	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
26.4 ANALYSIS OF FINANCIAL ASSETS MEASURED AT FVOCI/AVAILABLE FOR SALE				
26.4.1 BY CURRENCY				
Sri Lankan Rupee	51,229,821	51,278,705	46,509,988	46,509,988
United States Dollar	7,540,899	7,540,899	6,997,049	6,997,049
Total financial assets measured at FVOCI	58,770,720	58,819,604	53,507,037	53,507,037
26.4.2 BY COLLATERALISATION				
Pledged as collateral	20,417,964	20,417,964	16,938,027	16,938,027
Unencumbered	38,352,756	38,401,640	36,569,010	36,569,010
Total financial assets measured at FVOCI	58,770,720	58,819,604	53,507,037	53,507,037

	2018		2017	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
26.5 FAIR VALUE CONSISTS OF				
Total cost/amortised cost	61,620,250	61,717,462	54,744,354	54,790,464
Accumulated fair value change recognised through				
- Other comprehensive income	(2,887,596)	(2,935,915)	1,031,035	1,032,516
- Income statement	38,066	38,057	(2,268,352)	(2,315,943)
Total fair value	58,770,720	58,819,604	53,507,037	53,507,037

	2018		2017	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
26.6 ACCUMULATED FAIR VALUE CHANGE				
Fair value change as at 1 January	(1,237,317)	(1,283,427)	(4,848,150)	(4,898,215)
Fair value change during the year	(1,612,213)	(1,614,431)	3,610,833	3,614,788
Fair value change as at 31 December	(2,849,530)	(2,897,858)	(1,237,317)	(1,283,427)

	Bank LKR '000	Group LKR '000
26.7 MOVEMENT IN EXPECTED CREDIT LOSS ALLOWANCE DURING THE YEAR		
STAGE 1		
Balance as at 1 January 2018	-	-
Adjustment on initial application of SLFRS 9 (Note 56.1)	62,785	62,785
Adjusted balance as at 1 January 2018	62,785	62,785
Charge/(write back) to income statement	(38,066)	(38,057)
Balance as at 31 December 2018	24,719	24,728

Primary activity	2018				2017				
	Number of ordinary equities	Holding %	Cost LKR '000	Market value LKR '000	Number of ordinary equities	Holding %	Cost LKR '000	Market value LKR '000	
27. INVESTMENT IN SUBSIDIARY									
Seylan Developments PLC	Property development/management	104,332,112	70.51	1,153,602	1,147,653	104,332,112	70.51	1,153,602	1,418,917
				1,153,602	1,147,653			1,153,602	1,418,917

	2018 LKR '000	2017 LKR '000
27.1 NON-CONTROLLING INTEREST (NCI) IN SUBSIDIARY, SEYLAN DEVELOPMENTS PLC		
NCI (%)	29.49	29.49
Total assets	5,638,682	5,474,019
Total liabilities	704,135	652,450
Net assets	4,934,547	4,821,569
Carrying amount of NCI (Note 27.2)	1,216,457	1,213,666
Revenue	291,487	264,340
Profit	255,036	241,262
Total comprehensive income	246,104	250,477
Profit allocated to NCI	13,613	186,797
Cash flow from operating activities	174,892	118,358
Cash flow from investing activities	(908,536)	952,006
Cash flow from financing activities – before dividend to NCI	(93,897)	(78,249)
Cash flow from financing activities – cash dividend to NCI	(39,271)	(32,725)
Net increase/(decrease) in cash and cash equivalents	(866,812)	959,390
27.2 CARRYING AMOUNT OF NON-CONTROLLING INTEREST (NCI)		
Balance as at 1 January	1,213,666	1,065,190
Profit for the year	13,613	186,797
Other comprehensive income, net of tax	28,449	(5,596)
Dividends paid for the year	(39,271)	(32,725)
Balance as at 31 December	1,216,457	1,213,666

	Bank	
	2018 LKR '000	2017 LKR '000
28. GROUP BALANCES RECEIVABLE		
Seylan Developments PLC	40,600	30,000
	40,600	30,000

	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 2017	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)
Adjustment - 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
Additions and improvements	-	-	478,522	135,027	232,404	24,825	-	870,778
Surplus/(deficit) on revaluation	-	-	-	-	-	-	-	-
Disposals/write-offs	-	-	(1,515,779)	(8,702)	(19,395)	(17,148)	(332)	(1,561,356)
Adjustment - other transfers from/(to)	-	-	-	-	-	-	-	-
Balance as at 31 December 2018	1,294,117	309,074	3,105,318	1,287,206	1,977,682	180,352	48,065	8,201,814
Accumulated depreciation								
Balance as at 1 January 2017	-	-	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)
Adjustment - 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
Charge for the year	-	13,777	322,573	91,216	171,984	24,112	-	623,662
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-
Disposals/write-offs	-	-	(1,515,643)	(8,418)	(18,252)	(15,981)	(332)	(1,558,626)
Adjustment - other transfers from/(to)	-	-	-	-	-	-	-	-
Balance as at 31 December 2018	-	27,553	1,778,403	995,208	1,498,138	114,921	48,065	4,462,288
As at 31 December 2017								
Cost/valuation less accumulated depreciation	1,294,117	295,298	1,171,102	248,471	420,267	65,885	-	3,495,140
Accumulated impairment	-	-	-	-	-	-	-	-
Net carrying amount	1,294,117	295,298	1,171,102	248,471	420,267	65,885	-	3,495,140
Market value**	1,294,117	295,298						
As at 31 December 2018								
Cost/valuation less accumulated depreciation	1,294,117	281,521	1,326,915	291,998	479,544	65,431	-	3,739,526
Accumulated impairment	-	-	-	-	-	-	-	-
Net carrying amount	1,294,117	281,521	1,326,915	291,998	479,544	65,431	-	3,739,526
Market value**	1,294,117	281,521						

* Property at 90, Galle Road Colombo 3, was transferred to assets held for sale, in 2017 and was disposed in year 2018.

** Market value of freehold Land and Buildings were estimated as last revalued amount less subsequent depreciation. The details of which has been provided in note 29.4. The market value of all other categories were assumed to be the net carrying amount.

	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
29.2 GROUP								
Cost/valuation								
Balance as at 1 January 2017	1,294,117	2,867,535	3,723,783	1,189,286	1,665,609	157,150	48,397	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)
Adjustment - other transfers from/(to)	-	-	5,627	(5,627)	-	-	-	-
Balance as at 31 December 2017	1,294,117	2,817,350	4,149,157	1,259,820	1,775,252	172,675	48,397	11,516,768
Additions and improvements	-	13,067	478,696	136,546	234,480	24,825	-	887,614
Surplus/(deficit) on revaluation	-	72,383	-	-	-	-	-	72,383
Disposals/write-offs	-	-	(1,515,779)	(8,702)	(19,671)	(17,148)	(332)	(1,561,632)
Adjustment - other transfers from/(to)	-	-	-	-	-	-	-	-
Balance as at 31 December 2018	1,294,117	2,902,800	3,112,074	1,387,664	1,990,061	180,352	48,065	10,915,133
Accumulated depreciation								
Balance as at 1 January 2017	-	-	2,736,250	914,655	1,182,425	92,457	48,397	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)
Adjustment - other transfers from/(to)	-	-	3,081	(3,081)	-	-	-	-
Balance as at 31 December 2017	-	47,233	2,975,494	987,914	1,349,354	106,790	48,397	5,515,182
Charge for the year	-	48,312	323,288	100,172	173,638	24,112	-	669,522
Revaluation adjustment on accumulated depreciation	-	(67,992)	-	-	-	-	-	(67,992)
Disposals/write-offs	-	-	(1,515,643)	(8,418)	(18,297)	(15,981)	(332)	(1,558,671)
Adjustment - other transfers from/(to)	-	-	-	-	-	-	-	-
Balance as at 31 December 2018	-	27,553	1,783,139	1,079,668	1,504,695	114,921	48,065	4,558,041
As at 31 December 2017								
Cost/valuation less accumulated depreciation	1,294,117	2,770,117	1,173,663	271,906	425,898	65,885	-	6,001,586
Accumulated impairment	-	-	-	-	-	-	-	-
Net carrying amount	1,294,117	2,770,117	1,173,663	271,906	425,898	65,885	-	6,001,586
Market value*	1,294,117	2,770,117						
As at 31 December 2018								
Cost/valuation less accumulated depreciation	1,294,117	2,875,247	1,328,935	307,996	485,366	65,431	-	6,357,092
Accumulated impairment	-	-	-	-	-	-	-	-
Net carrying amount	1,294,117	2,875,247	1,328,935	307,996	485,366	65,431	-	6,357,092
Market value*	1,294,117	2,875,247						

* Market value of freehold Land and Buildings were estimated as last revalued amount less subsequent depreciation. The details of which has been provided in Note 29.4. The market value of all other categories were assumed to be the net carrying amount.

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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Computer equipment	879,156	2,356,592	879,817	2,357,221
Office machines and equipment	758,686	669,539	780,599	669,539
Fixtures, fittings and furniture	1,046,284	863,052	1,046,284	865,985
Motor vehicles	57,663	54,984	57,663	54,984
Leased assets	48,065	48,397	48,065	48,397
Total fully depreciated property, plant and equipment	2,789,854	3,992,564	2,812,428	3,996,126
Total fully depreciated intangible assets	1,370,098	1,808,480	1,370,098	1,808,480
Total fully depreciated assets	4,159,952	5,801,044	4,182,526	5,804,606

Fully depreciated unusable assets amounting to LKR 2,006 Mn. (including LKR 497 Mn. of intangible assets) were written-off during the year 2018.

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		Accumulated depreciation as at 31.12.2018 LKR '000	Net book value as at 31.12.2018 LKR '000
				Land as at 31.12.2018 LKR '000	Building as at 31.12.2018 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	2,106	137,894
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	1,649	114,851
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	1,453	27,797
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	2,221	80,279
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	2,052	177,248
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	2,945	97,055
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	451	13,049
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	329	24,671

Address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Extent	Cost/valuation		Accumulated depreciation as at 31.12.2018 LKR '000	Net book value as at 31.12.2018 LKR '000
				Land as at 31.12.2018 LKR '000	Building as at 31.12.2018 LKR '000		
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	1,034	19,766
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	2,495	78,505
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	755	17,395
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	260	32,495
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	2,592	50,408
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	2,385	100,915
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	814	23,686
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	280	46,157
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	1,771	63,229
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	309	2,291
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	1,146	84,704
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	506	148,243
Total freehold land and buildings - Bank				1,294,117	309,074	27,553	1,575,638
Seylan Towers - East Tower 90, Galle Road, Colombo 3	Investment method Estimated rent income per month per square foot for building	LKR 175 to LKR 250 p.sq.ft.		-	2,593,726	-	2,593,726
Total freehold buildings - Subsidiary				-	2,593,726	-	2,593,726
Total freehold land and buildings - Group				1,294,117	2,902,800	27,553	4,169,364

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 get higher/(lower) Price per square foot get higher/(lower) Depreciation rate for building 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 get higher/(lower) Years purchase 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 get higher/(lower)

Address	2018					
	Extent	Cost - land LKR '000	Cost - buildings LKR '000	Accumulated depreciation - land LKR '000	Accumulated depreciation - buildings LKR '000	Carrying value LKR '000
29.4.2 LEASEHOLD LAND AND BUILDINGS						
Nuwara Eliya						
48 & 48/1, Park Road, Nuwara Eliya	20.28P	22,603	19,580	3,641	4,816	33,726
Hingurakgoda						
13 & 14, Airport Road, Hingurakgoda	15.84P	4,356	8,544	2,751	5,396	4,753
Total leasehold land and buildings - Bank		26,959	28,124	6,392	10,212	38,479
Seylan Tower Land - East Tower						
90, Galle Road, Colombo 3		640,549	-	107,038	-	533,511
Total leasehold land - Subsidiary		640,549	-	107,038	-	533,511
Total leasehold land and buildings - Group		667,508	28,124	113,430	10,212	571,990
Total land and buildings - Group		1,961,625	2,930,924	113,430	37,765	4,741,354

	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	27,553	281,521
Total freehold land and buildings - Bank	1,603,191	27,553	1,575,638
Leasehold land	26,959	6,392	20,567
Leasehold buildings	28,124	10,212	17,912
Total leasehold land and buildings - Bank	55,083	16,604	38,479
Total land and buildings - Bank	1,658,274	44,157	1,614,117
Freehold buildings - Subsidiary	2,593,726	-	2,593,726
Leasehold land - Subsidiary	640,549	107,038	533,511
Total land and buildings - Subsidiary	3,234,275	107,038	3,127,237
Total land and buildings - Group	4,892,549	151,195	4,741,354

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					
	2018			2017		
	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	132,139	597,725
Accumulated depreciation	-	(47,625)	(47,625)	-	(44,344)	(44,344)
Carrying value	465,586	84,514	550,100	465,586	87,795	553,381

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 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	14,658	12,713	114,286	104,931
Charge for the year	1,946	1,945	9,356	9,355
Balance as at 31 December	16,604	14,658	123,642	114,286
Carrying amount	38,479	40,425	571,990	581,346

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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
31. INVESTMENT PROPERTIES				
Cost				
Balance as at 1 January	-	-	1,135,761	1,128,223
Additions during the year	-	-	4,246	7,538
Cost as at 31 December (Note 31.1)	-	-	1,140,007	1,135,761
Provision for impairment	-	-	(71,462)	(71,462)
Cost less impairment as at 31 December	-	-	1,068,545	1,064,299
Accumulated depreciation				
Balance as at 1 January	-	-	212,632	202,683
Charge for the year	-	-	10,775	9,949
Balance as at 31 December	-	-	223,407	212,632
Carrying value as at 31 December	-	-	845,138	851,667

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	31.12.2018	1,066,295	1,343,803
Moratuwa Lake Villas, St. Peter's Road, Moratuwa	0A 1R 05P	31.12.2018	3,361	3,375
Ja-Ela commercial complex**			70,351	-
Cost as at 31 December 2018			1,140,007	

*The rent income from the Seylan Towers-West Tower for the year 2018 is LKR 70.92 Mn. (2017 - LKR 72.12 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) Ltd. Chartered Valuation Surveyors	Market rental based income method 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 211.00 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 375,000.00 and LKR 425,000.00).	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 22,250.00 per sq.ft.	Estimated fair value would increase if replacement cost gets higher.

Property	Name and qualifications of the valuer	Valuation technique	Significant unobservable inputs	Inter relationship between key unobservable inputs and fair value measurement
			Full life of the building is taken as 100 years and the remaining life is taken as 69 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 13,000,000.00 per perch	Estimated fair value would increase if the market value of the land get higher.
Moratuwa Lake Villas – St. Peter's Road, Moratuwa	Sunil Fernando & Associates (Pvt) Ltd. Chartered Valuation Surveyors	The valuation based on: <ul style="list-style-type: none"> – 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
32. INTANGIBLE ASSETS				
SOFTWARE AND SOFTWARE RELATED				
Cost				
Balance as at 1 January	2,431,307	2,237,532	2,431,307	2,237,532
Additions for the year	332,855	193,775	332,855	193,775
Write-offs during the year	(496,560)	-	(496,560)	-
Balance as at 31 December	2,267,602	2,431,307	2,267,602	2,431,307
Accumulated amortisation				
Balance as at 1 January	2,067,856	1,975,420	2,067,856	1,975,420
Amortisation for the year	120,215	92,436	120,215	92,436
Write-offs during the year	(496,560)	-	(496,560)	-
Balance as at 31 December	1,691,511	2,067,856	1,691,511	2,067,856
Net carrying amount	576,091	363,451	576,091	363,451

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
33. DEFERRED TAX ASSETS/(LIABILITIES)				
Balance as at 1 January	(1,359,044)	(11,874)	(1,431,294)	(70,959)
Adjustment on initial application of SLFRS 9 (Note 56.1)	671,046	-	671,046	-
Adjusted balance as at 1 January	(687,998)	(11,874)	(760,248)	(70,959)
Recognised in the profit or loss				
Charge for the year (Note 15.1)	562,515	(214,787)	503,354	(235,857)
Recognised in other comprehensive income				
Effect on revaluation of property, plant and equipment (Note 46.2)	-	-	(39,216)	7,905
Revaluation surplus on land (Note 46.2)*	-	(231,989)	-	(231,989)
Effect on net fair value losses/(gains) on financial investment recognised as FVOCI (Note 46.4)	395,758	(900,394)	395,758	(900,394)
Balance as at 31 December (Notes 33.1 and 33.2)	270,275	(1,359,044)	99,648	(1,431,294)

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			
	2018		2017	
	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	1,179,857	330,360	1,516,307	424,566
Lease rentals	2,035,473	569,932	2,716,026	760,487
Revaluation gain brought forward	72,818	20,389	72,818	20,389
Revaluation surplus on land	828,531	231,989	828,531	231,989
	4,116,679	1,152,670	5,133,682	1,437,431
Deferred tax - assets				
Leave encashment provision (Note 43.2)	168,386	47,148	164,180	45,970
Other provisions	159,034	44,529	172,675	48,349
Additional gratuity obligation	897,470	251,292	-	-
Tax 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
Expected credit loss/impairment	2,728,538	763,991	-	-
Fair value changes recognised through OCI/available-for-sale reserves	1,107,609	310,130	(305,811)	(85,626)
	5,081,948	1,422,945	279,953	78,387
Net deferred tax assets/(liabilities) (Note 33.1.1)	965,269	270,275	(4,853,729)	(1,359,044)

	Bank									
	2018				2017					
	Balance as at 1 January LKR '000	Recognised in profit or loss LKR '000	Recognised in other comprehensive income LKR '000	Recognised in equity 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	Recognised in equity LKR '000	Balance as at 31 December LKR '000
33.1.1 MOVEMENT IN TEMPORARY DIFFERENCES										
Taxable temporary differences										
Property, plant and equipment	1,516,307	(336,450)	-	-	1,179,857	1,287,386	228,921	-	-	1,516,307
Lease rentals	2,716,026	(680,553)	-	-	2,035,473	2,115,829	600,197	-	-	2,716,026
Revaluation gain brought forward	72,818	-	-	-	72,818	72,818	-	-	-	72,818
Revaluation surplus on land	828,531	-	-	-	828,531	-	-	828,531	-	828,531
	5,133,682	(1,017,003)	-	-	4,116,679	3,476,033	829,118	828,531	-	5,133,682
Deductible temporary differences										
Leave encashment provision	164,180	4,206	-	-	168,386	236,408	(72,228)	-	-	164,180
Other provisions	172,675	(13,641)	-	-	159,034	266,425	(93,750)	-	-	172,675
Additional gratuity	-	897,470	-	-	897,470	-	-	-	-	-
Tax losses carried forward	227,998	(227,998)	-	-	-	-	227,998	-	-	227,998
Reversal of revaluation loss on property, plant and equipment	20,911	-	-	-	20,911	20,911	-	-	-	20,911
Expected credit loss/impairment	-	331,943	-	2,396,595*	2,728,538	-	-	-	-	-
Fair value changes recognised through OCI/available for sale reserves	(305,811)	-	1,413,420	-	1,107,609	2,909,882	-	(3,215,693)	-	(305,811)
	279,953	991,980	1,413,420	2,396,595	5,081,948	3,433,626	62,020	(3,215,693)	-	279,953
Net (taxable)/deductible temporary differences	(4,853,729)	2,008,983	1,413,420	2,396,595	965,269	(42,407)	(767,098)	(4,044,224)	-	(4,853,729)

*This represents temporary difference arising from adjustment on initial application of SLFRS 9.

	Group			
	2018		2017	
	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	1,267,886	355,008	1,576,877	441,526
Lease rentals	2,035,473	569,932	2,716,026	760,487
Revaluation gain brought forward	1,187,433	332,481	1,047,378	293,266
Revaluation surplus on land	828,531	231,989	828,531	231,989
	5,319,323	1,489,410	6,168,812	1,727,268
Deferred tax - assets				
Leave encashment provision (Note 43.2)	168,386	47,148	164,180	45,970
Other provisions	159,034	44,529	172,675	48,350
Additional gratuity	897,470	251,291	-	-
Tax losses carried forward (Note 15.3)	593,260	166,113	1,005,092	281,426
Reversal of revaluation loss on property, plant and equipment	(18,305)	(5,125)	20,911	5,855
Expected credit loss/impairment	2,728,538	763,991	-	-
Fair value changes recognised through OCI/ available-for-sale reserves	1,146,825	321,111	(305,811)	(85,627)
	5,675,208	1,589,058	1,057,047	295,974
Net deferred tax assets/(liabilities) (Note 33.2.1)	355,885	99,648	(5,111,765)	(1,431,294)

	Group									
	2018					2017				
	Balance as at 1 January LKR '000	Recognised in profit or loss LKR '000	Recognised in other comprehensive income LKR '000	Recognised in equity 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	Recognised in equity LKR '000	Balance as at 31 December LKR '000
33.2.1 MOVEMENT IN TEMPORARY DIFFERENCES										
Taxable temporary differences										
Property, plant and equipment	1,576,877	(308,991)	-	-	1,267,886	1,338,839	238,038	-	-	1,576,877
Lease rentals	2,716,026	(680,553)	-	-	2,035,473	2,115,829	600,197	-	-	2,716,026
Revaluation gain brought forward	1,047,378	-	140,055	-	1,187,433	1,075,611	-	(28,233)	-	1,047,378
Revaluation surplus on land	828,531	-	-	-	828,531	-	-	828,531	-	828,531
	6,168,812	(989,544)	140,055	-	5,319,323	4,530,279	838,235	800,298	-	6,168,812
Deductible temporary differences										
Leave encashment provision	164,180	4,206	-	-	168,386	236,408	(72,228)	-	-	164,180
Other provisions	172,675	(13,641)	-	-	159,034	266,425	(93,750)	-	-	172,675
Additional gratuity	-	897,470	-	-	897,470	-	-	-	-	-
Tax losses carried forward	1,005,092	(411,832)	-	-	593,260	843,229	161,863	-	-	1,005,092
Reversal of revaluation loss on property, plant and equipment	20,911	-	(39,216)	-	(18,305)	20,911	-	-	-	20,911
Expected credit loss/impairment	-	331,943	-	2,396,595*	2,728,538	-	-	-	-	-
Fair value changes recognised through OCI/ available for sale reserves	(305,811)	-	1,452,636	-	1,146,825	2,909,882	-	(3,215,693)	-	(305,811)
	1,057,047	808,146	1,413,420	2,396,595	5,675,208	4,276,855	(4,115)	(3,215,693)	-	1,057,047
Net (taxable)/deductible temporary differences	(5,111,765)	1,797,690	1,273,365	2,396,595	355,885	(253,424)	(842,350)	(4,015,991)	-	(5,111,765)

* This represents temporary difference arising from adjustment on initial application of SLFRS 9.

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
34. ASSETS HELD FOR SALE				
Balance as at 1 January	900,543	-	-	226,827
Add: Transferred from property, plant and equipment/ investment property	-	900,543	-	-
Less: Disposals during the year* (Note 34.1)	(900,543)	-	-	(226,827)
Balance as at 31 December	-	900,543	-	-

* The property at 90, Galle Road, Colombo 03 was transferred from property plant and equipment at the carrying value during the year 2017 since the Bank decided to dispose the same to its subsidiary, Seylan Developments PLC.

The said property was disposed in March 2018 (Note 34.1).

34.1 GAIN ON DISPOSAL OF ASSETS HELD FOR SALE (BANK) – 2018

The properties at 90, Galle Road, Colombo 03 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
90, Galle Road, Colombo 03	900,543	934,000	33,457
	900,543	934,000	33,457

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
35. OTHER ASSETS				
Deposits and prepayments	967,338	1,287,250	983,776	1,303,995
Clearing house balance	3,435,770	2,526,194	3,435,770	2,526,194
Inventories	151,003	521,674	156,444	525,371
Sundry debtors	391,660	271,018	391,660	271,018
Other receivables	1,162,541	695,683	1,162,541	695,683
Due from trust companies	113,183	114,466	113,183	114,466
Prepaid staff cost	1,609,476	1,750,047	1,609,767	1,750,386
Other debtors	395,540	433,049	416,387	449,906
Total other assets	8,226,511	7,599,381	8,269,528	7,637,019

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
36. DUE TO BANKS				
Call money borrowings	10,795,666	12,510,751	10,795,666	12,510,751
Refinance borrowings	2,258,992	1,739,152	2,258,992	1,739,152
Borrowings from local banks	71,093	102,275	71,093	102,275
Borrowings from foreign banks	89,481	1,096,333	89,481	1,096,333
Borrowings from development finance institutions	13,163,549	11,604,461	13,163,549	11,604,461
Total due to banks	26,378,781	27,052,972	26,378,781	27,052,972

37. FINANCIAL LIABILITIES AT AMORTISED COST – DUE TO DEPOSITORS

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Total due to depositors	357,560,187	307,098,902	357,560,187	307,098,902

37.1 ANALYSIS OF DUE TO DEPOSITORS

37.1.1 BY PRODUCT

Local currency

Demand deposits	16,885,181	15,421,548	16,885,181	15,421,548
Savings deposits	70,292,893	65,596,837	70,292,893	65,596,837
Time deposits	228,459,323	188,861,741	228,459,323	188,861,741
Certificates of deposit	2,655,070	3,438,619	2,655,070	3,438,619
Total due to depositors – local currency	318,292,467	273,318,745	318,292,467	273,318,745

Foreign currency

Demand deposits	5,485,326	4,581,517	5,485,326	4,581,517
Savings deposits	10,451,956	10,207,465	10,451,956	10,207,465
Time deposits	23,330,438	18,991,175	23,330,438	18,991,175
Total due to depositors – foreign currency	39,267,720	33,780,157	39,267,720	33,780,157
Total due to depositors by product	357,560,187	307,098,902	357,560,187	307,098,902

37.1.2 BY CURRENCY

Sri Lankan rupee	318,292,467	273,318,745	318,292,467	273,318,745
United States dollar	33,296,544	28,218,069	33,296,544	28,218,069
Great Britain pound	3,045,840	2,645,587	3,045,840	2,645,587
Australian dollar	1,250,428	1,253,952	1,250,428	1,253,952
Euro	1,204,116	1,188,230	1,204,116	1,188,230
Canadian dollar	197,353	227,100	197,353	227,100
Japanese yen	107,556	96,950	107,556	96,950
Singapore dollar	94,637	63,820	94,637	63,820
Swiss franc	52,185	54,843	52,185	54,843
New Zealand dollar	7,850	12,423	7,850	12,423
Danish krone	6,266	5,436	6,266	5,436
Hong Kong dollar	1,923	222	1,923	222
Norwegian kroner	1,393	12,230	1,393	12,230
Chinese renminbi	981	67	981	67
Swedish kroner	577	1,228	577	1,228
United Arab Emirates dirham	71	-	71	-
Total due to depositors by currency	357,560,187	307,098,902	357,560,187	307,098,902

37.1.3 BY CUSTOMER CATEGORY

Banks	11,244,299	3,759,271	11,244,299	3,759,271
Finance companies	5,903,959	5,631,683	5,903,959	5,631,683
Other customers	340,411,929	297,707,948	340,411,929	297,707,948
Total due to depositors by customer category	357,560,187	307,098,902	357,560,187	307,098,902

37.1.4 BY MATURITY

Due within one year	333,151,362	284,343,600	333,151,362	284,343,600
Due after one year	24,408,825	22,755,302	24,408,825	22,755,302
Total due to depositors by maturity	357,560,187	307,098,902	357,560,187	307,098,902

38. FINANCIAL LIABILITIES AT AMORTISED COST – DUE TO DEBT SECURITIES HOLDERS

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Securities sold under repurchase agreements (Repo)	21,094,525	16,631,973	21,094,525	16,631,973
	21,094,525	16,631,973	21,094,525	16,631,973

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
39. FINANCIAL LIABILITIES AT AMORTISED COST – DUE TO OTHER BORROWERS				
Refinance borrowings – Other institutions (Coconut Cultivation Board)	32,018	22,396	32,018	22,396
	32,018	22,396	32,018	22,396

	Bank	
	2018 LKR '000	2017 LKR '000
40. GROUP BALANCES PAYABLE		
Seylan Developments PLC	211,686	1,145,110
	211,686	1,145,110

Issue	Interest rate	Colombo Stock Exchange listing	Subordinated/Unsubordinated	Interest payable frequency	Allotment date/period	Maturity date	Face Value	Bank/Group	
								Amortised cost	
								2018 LKR '000	2017 LKR '000
41. DEBT SECURITIES ISSUED									
41.1 FIXED RATE DEBENTURES									
2013-2018	15.50% p.a.	Listed	Subordinated	Annually	14.02.2013 – 22.02.2013	21.02.2018	1,090,910	-	1,235,912
2013-2018	15.00% p.a.	Listed	Subordinated	Semi-annually	14.02.2013 – 22.02.2013	21.02.2018	843,020	-	832,104
2013-2018	14.50% p.a.	Listed	Subordinated	Monthly	14.02.2013 – 22.02.2013	21.02.2018	66,070	-	66,332
2014-2018	8.00% p.a.	Listed	Unsubordinated	Semi-annually	23.12.2014	22.12.2018	462,280	-	463,192
2014-2019	8.35% p.a.	Listed	Unsubordinated	Semi-annually	23.12.2014	22.12.2019	30	30	30
2014-2019	8.60% p.a.	Listed	Unsubordinated	Annually	23.12.2014	22.12.2019	1,866,520	1,870,038	1,870,478
2014-2020	8.60% p.a.	Listed	Unsubordinated	Semi-annually	23.12.2014	22.12.2020	2,505,520	2,506,096	2,405,972
2014-2020	8.75% p.a.	Listed	Unsubordinated	Annually	23.12.2014	22.12.2020	300,520	305,242	305,833
2016-2021	13.00% p.a.	Listed	Subordinated	Semi-annually	15.07.2016	14.07.2021	1,706,890	1,810,463	1,814,709
2016-2023	13.75% p.a.	Listed	Subordinated	Semi-annually	15.07.2016	14.07.2023	3,275,750	3,484,300	3,482,063
2018-2023	12.85% p.a.	Listed	Subordinated	Semi-annually	31.03.2018	30.03.2023	3,910,000	3,933,333	-
2018-2025	13.20% p.a.	Listed	Subordinated	Semi-annually	31.03.2018	30.03.2025	715,000	738,788	-
2018-2028	13.50% p.a.	Listed	Subordinated	Semi-annually	31.03.2018	30.03.2028	1,609,000	1,663,750	-
Total fixed rate debentures								16,312,040	12,476,625
41.2 FLOATING RATE DEBENTURES									
2016-2021	Six months Treasury Bill rate +1.5% p.a.	Listed	Subordinated	Semi-annually	15.07.2016	14.07.2021	17,360	17,360	17,400
Total fixed floating debentures								17,360	17,400
Total debentures								16,329,400	12,494,025
41.3 DEBENTURES DUE									
2018									
– Within one year							1,866,550	2,389,360	-
– After one year							14,040,040	13,940,040	-
2017									
– Within one year							2,462,280	-	2,921,435
– After one year							9,672,590	-	9,572,590
Based on capital and interest maturities (Note 53. 2)									
Total debentures								16,329,400	12,494,025

41.4 UTILISATION OF FUNDS RAISED THROUGH DEBENTURES ISSUED IN MARCH 2018 IS AS FOLLOWS:

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)	Percentage of total proceeds	Amount utilised in LKR (B)	Percentage of utilised against allocation (B/A)	Details, if not fully utilised
1.	To strengthen the Tier 2 capital base of the Bank in accordance with Basel III requirements.	With effect from closure of the issue	6 Bn. with an option to raise a further 4 Bn.	6.234 Bn.	100%	6.234 Bn.	100%	N/A
2.	To utilise the entire proceeds of the issue to grow the loans and advances portfolio through diverse lending products in the ordinary course of the Bank.	Over the period of twelve months from the date of allotment or 31 December 2018 whichever is earlier						

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
42. CURRENT TAX LIABILITIES				
Opening balance as at 1 January	1,022,378	750,385	1,046,249	757,767
Charge for the year	2,039,561	2,068,743	2,039,561	2,102,912
Less – Payments/Deductions	(1,852,475)	(1,796,750)	(1,900,277)	(1,814,430)
Closing balance as at 31 December	1,209,464	1,022,378	1,185,533	1,046,249

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
43. OTHER LIABILITIES				
Accrued expenses	856,718	791,780	870,116	796,673
Margin accounts	1,973,381	966,992	1,973,381	966,992
Deposit funding accounts	3,389,018	2,462,653	3,389,018	2,462,653
Dividend payable	44,758	42,124	58,757	52,400
Provision for defined benefit obligations (Net) (Note 43.1.1)	113,001	(498,460)	105,043	(506,380)
Sundry creditors	1,096,535	1,029,590	1,096,535	1,029,590
Value added tax and other statutory payables	293,461	348,534	295,278	340,159
Cheques payable	683,466	615,445	683,466	615,445
Leave encashment provision (Note 43.2)	168,386	164,180	168,386	164,180
Expected credit loss allowance on undrawn credit commitments and financial guarantees (Note 43.3)	264,035	-	264,035	-
Other creditors	479,060	598,721	568,335	672,036
Total other liabilities	9,361,819	6,521,559	9,472,350	6,593,748

43.1 DEFINED BENEFIT OBLIGATIONS

The Board has resolved to pay an additional half a month basic salary (last drawn) over and above the statutory gratuity entitlement for each year of service for eligible existing employees and ex-employees who joined before 5 March 2009 and retired/resigned after 5 March 2009 having completed uninterrupted and unblemished service period of ten years in the Bank, subject to the entering into a memorandum of settlement which confers on them the said entitlement to the additional payment and giving the right to the Bank to settle the said liability by disposal of the shares in the Share Trust companies.

All employees who joined on or after 5 March 2009 are entitled to receive a Gratuity of half a month basic salary (last drawn) for each completed year of service in terms of Gratuity Act No. 12 of 1983.

Based on the Sri Lanka Accounting Standard (LKAS) 19 – “Employee Benefits” the subsidiary has 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.

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
43.1.1 THE AMOUNT RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION				
Present value of defined benefit obligations – (Note 43.1.3)	2,632,072	1,237,690	2,637,707	1,244,738
Fair value of plan assets – (Note 43.1.4)	(2,519,071)	(1,736,150)	(2,532,664)	(1,751,118)
Provision for defined benefit obligations	113,001	(498,460)	105,043	(506,380)
43.1.2 PLAN ASSETS				
Balance with banks	30,558	19,181	30,594	19,230
Investment in Treasury Bills, Bonds and Repo	1,175,669	1,716,969	1,175,876	1,731,888
Investments in fixed deposits	811,678	-	825,028	-
Expected proceeds from sale of trust company shares (Note 43.1.7)	501,166	-	501,166	-
	2,519,071	1,736,150	2,532,664	1,751,118

Plan assets are held by an approved external gratuity trust fund.

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
43.1.3 MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS (PV DBO)				
Liability for defined benefit obligations as at 1 January	1,237,690	1,170,323	1,244,738	1,176,156
Current service cost	136,365	70,351	136,717	70,849
Interest cost	136,146	134,587	136,921	135,258
Actuarial gains on PV DBO	(108,695)	(66,601)	(109,547)	(65,930)
Benefits paid by the plan	(60,397)	(70,970)	(62,085)	(71,595)
Past service cost	1,290,963	-	1,290,963	-
Liability for defined benefit obligations as at 31 December	2,632,072	1,237,690	2,637,707	1,244,738
43.1.4 MOVEMENT IN PLAN ASSETS				
Fair value of plan assets as at 1 January	1,736,150	1,514,557	1,751,118	1,528,720
Expected return on plan assets	190,976	174,174	192,623	175,803
Expected proceeds from sale of trust company shares (Note 43.1.7)	501,166	-	501,166	-
Contribution paid into plan	175,545	156,808	175,545	156,808
Benefits paid by the plan	(60,397)	(70,970)	(62,085)	(71,595)
Actuarial loss on plan assets	(24,369)	(38,419)	(25,703)	(38,618)
Fair value of plan assets as at 31 December	2,519,071	1,736,150	2,532,664	1,751,118
43.1.5 ACTUARIAL (GAIN) OR LOSS				
Actuarial gain for year – obligation	(108,695)	(66,601)	(109,547)	(65,930)
Actuarial loss for year – plan assets	24,369	38,419	25,703	38,618
Actuarial gain recognised in other comprehensive income	(84,326)	(28,182)	(83,844)	(27,312)
43.1.6 AMOUNT RECOGNISED IN THE INCOME STATEMENT				
Current service cost	136,365	70,351	136,717	70,849
Interest cost	136,146	134,587	136,921	135,258
Expected return on plan assets	(190,976)	(174,174)	(192,623)	(175,803)
Amount recognised in the income statement as personnel expenses (Note 14)	81,535	30,764	81,015	30,304
Amount recognised in the income statement for additional gratuity (Note 43.1.7)	1,134,771	-	1,134,771	-
	1,216,306	30,764	1,215,786	30,304
43.1.7 AMOUNT RECOGNISED IN THE INCOME STATEMENT FOR ADDITIONAL GRATUITY**				
Additional gratuity expense (Note 43.1.3)	1,290,963	-	1,290,963	-
Payments made to ex-staff	344,974	-	344,974	-
Expected proceeds from sale of trust company shares*	(501,166)	-	(501,166)	-
	1,134,771	-	1,134,771	-

* Expected proceeds from disposal of shares held by Share Trust Companies will be credited to the Gratuity Trust Fund of the Bank.

** One off provision.

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
43.1.8 AMOUNT RECOGNISED IN THE OTHER COMPREHENSIVE INCOME				
Actuarial gain recognised in the year	84,326	28,182	83,844	27,312
Amount recognised in the other comprehensive income	84,326	28,182	83,844	27,312

43.1.9 ACTUARIAL ASSUMPTIONS

	Bank	
	2018	2017
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 Subsidiary - 55 Years	Bank - 57 Years Subsidiary - 55 Years
Financial assumptions		
Discount rate	12.00%	11.00%
Salary increment	1st year - 9% 2nd year - 8.5% 3rd year - 5% and thereafter 3%, 3%, 10% per annum. Next increment due on 1 January 2019	1st year - 8% 2nd year - 8% 3rd year - 8% and thereafter 3%, 3%, 10% per annum. Next increment due on 1 January 2018

43.1.10 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

Increase/(decrease) in discount rate %	Increase/(decrease) in salary increment rate %	2018	
		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	**	(187,231)	(187,231)
(1)	**	210,115	210,115
*	1	233,207	233,207
*	(1)	(209,743)	(209,743)

* Discount rate is fixed at 12%.

** Salary increment rates 2019 - 9%, 2020 - 8.5%, 2021 - 5%, 2022 - 3%, 2023 - 3% and 2024 - 10%.

SUBSIDIARY

Increase/(decrease) in discount rate %	Increase/(decrease) in salary increment rate %	2018	
		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	**	(358)	(358)
(1)	**	394	394
*	1	441	441
*	(1)	(405)	(405)

* Discount rate is fixed at 12%.

** Salary increment rates 2019 - 7.5% and 6.00% thereafter.

43.1.11 MATURITY PROFILE OF THE DEFINED BENEFIT OBLIGATION**BANK**

Future working life time	Defined benefit obligation LKR '000
Within next 12 months	145,329
Between 1-2 years	397,431
Between 2-5 years	385,399
Between 5-10 years	926,599
Beyond 10 years	777,314
Total	2,632,072
Weighted average duration of defined benefit obligation	8.36 years

SUBSIDIARY

Future working life time	Defined benefit obligation LKR '000
Within next 12 months	33
Between 1-2 years	1,016
Between 2-5 years	906
Between 5-10 years	2,963
Beyond 10 Years	717
Total	5,635
Weighted average duration of defined benefit obligation	7.39 years

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
43.2 LEAVE ENCASHMENT PROVISION				
Balance as at 1 January	164,180	236,408	164,180	236,408
Leave encashment during the year	-	(140,112)	-	(140,112)
Amount charged/(reversed) to Income Statement during the year	4,206	67,884	4,206	67,884
Balance as at 31 December	168,386	164,180	168,386	164,180

Encashment benefit is provided for maximum of 45 days unutilised leave.

43.2.1 ACTUARIAL ASSUMPTIONS

	Bank	
	2018	2017
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	57 Years
Financial assumptions		
Discount rate	12.00%	11.00%
Salary increment	1st year - 9%	1st year - 8%
	2nd year - 8.5%	2nd year - 8%
	3rd year - 5%	3rd year - 8%
	and thereafter 3%, 3%, 10% per annum. Next increment due on 1 January 2019	and thereafter 3%, 3%, 10% per annum. Next increment due on 1 January 2018

43.2.2 SENSITIVITY OF ASSUMPTIONS EMPLOYED IN ACTUARIAL VALUATION

		Bank	
		2018	
Increase/(decrease) in discount rate	Increase/(decrease) in salary increment rate	Sensitivity effect on income statement increase/(reduction) in charge for the year	Sensitivity effect on employment benefit obligation increase/(decrease) in the liability
%	%	LKR '000	LKR '000
1	**	(12,995)	(12,995)
(1)	**	14,769	14,769
*	1	16,334	16,334
*	(1)	(14,496)	(14,496)

* Discount rate is fixed at 12%.

** Salary increment rates 2019 - 9%, 2020 - 8.5%, 2021 - 5%, 2022 - 3%, 2023 - 3% and 2024 - 10%.

	Bank	Group
	LKR '000	LKR '000
43.3 EXPECTED CREDIT LOSS ALLOWANCE ON UNDRAWN CREDIT COMMITMENTS AND FINANCIAL GUARANTEES		
STAGE 1		
Balance as at 1 January 2018	-	-
Adjustment on Initial Application of SLFRS 9 (Note 56.1)	254,052	254,052
Adjusted Balance as at 1 January 2018	254,052	254,052
Charge/(Write back) to Income Statement	9,983	9,983
Balance as at 31 December 2018	264,035	264,035

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
44. STATED CAPITAL				
Ordinary shares - voting (Note 44.1)	7,723,207	7,319,076	7,723,207	7,319,076
Ordinary shares - non-voting (Note 44.2)	4,302,588	3,909,193	4,302,588	3,909,193
Total stated capital	12,025,795	11,228,269	12,025,795	11,228,269
44.1 ORDINARY SHARES - VOTING				
Balance as at 1 January	7,319,076	6,962,722	7,319,076	6,962,722
Issued during the year (scrip dividend) - 4,490,341 ordinary shares of LKR 90.00 each	404,131	356,354	404,131	356,354
184,104,010 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, 4,490,341 of LKR 90.00 and net of issue expenses LKR 114,277,753.00)	7,723,207	7,319,076	7,723,207	7,319,076
44.2 ORDINARY SHARES - NON-VOTING				
Balance as at 1 January	3,909,193	3,567,002	3,909,193	3,567,002
Issued during the year (scrip dividend) - 7,152,645 ordinary shares of LKR 55.00 each	393,395	342,191	393,395	342,191
181,995,082 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, 7,152,645 shares of LKR 55.00 each and net of issue expenses LKR 67,302,925.00)	4,302,588	3,909,193	4,302,588	3,909,193

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
45. STATUTORY RESERVE FUND				
Balance as at 1 January	1,609,484	1,387,964	1,609,484	1,387,964
Transferred during the year*	159,460	221,520	159,460	221,520
Balance as at 31 December	1,768,944	1,609,484	1,768,944	1,609,484

* 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
46. OTHER RESERVES				
Capital reserve (Note 46.1)	418,021	418,021	673,234	673,234
Revaluation reserve (Note 46.2)	866,290	1,242,493	1,662,627	1,967,727
General reserve (Note 46.3)	33,787	33,787	33,787	33,787
Fair Value through other comprehensive income reserve/ Available for sale reserve (Note 46.4)	(1,879,301)	945,408	(1,914,326)	945,496
Cash flow hedge reserve (Note 46.5)	28,540	(7,366)	28,540	(7,366)
Investment fund reserve (Note 46.6)	1,549,076	1,557,803	1,549,076	1,557,803
Total other reserves	1,016,413	4,190,146	2,032,938	5,170,681
46.1 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
46.2 MOVEMENT IN REVALUATION RESERVE				
Balance as at 1 January	1,242,493	1,474,482	1,967,727	2,214,050
Surplus/(deficit) on revaluation during the year	-	-	140,375	(28,234)
Deferred tax impact on revaluation (surplus)/deficit during the year (Note 33)	-	-	(39,216)	7,905
Deferred tax impact on revaluation surplus of land (Note 33)	-	(231,989)	-	(231,989)
Transferred to non-controlling interest	-	-	(29,739)	5,995
Transferred to retained earnings	(376,203)	-	(376,520)	-
Balance as at 31 December	866,290	1,242,493	1,662,627	1,967,727

In addition to the Bank's revaluation reserve, Group includes the surplus on revaluation of property, plant and equipment of the subsidiary.

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
46.3 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
46.4 MOVEMENT IN FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME RESERVE/ AVAILABLE FOR SALE RESERVE				
Balance as at 1 January	945,408	(1,691,584)	945,496	(1,693,065)
Adjustment on initial application of SLFRS 9, net of tax (Note 56.1)	(1,570,187)	-	(1,603,743)	-
Adjusted balance as at 1 January	(624,779)	(1,691,584)	(658,247)	(1,693,065)
Net gain/(loss) on remeasuring of available-for-sale financial assets		3,537,386		3,539,611
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	(1,537,937)		(1,540,145)	
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	405,236		405,236	
Deferred tax impact on net fair value (gain)/loss (Note 33)	395,758	(900,394)	395,758	(900,394)
Transferred to non-controlling interest	-	-	651	(656)
Net gain on disposal of equity investments transferred to retained earnings	(517,579)	-	(517,579)	-
Balance as at 31 December	(1,879,301)	945,408	(1,914,326)	945,496

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
46.5 MOVEMENT IN CASH FLOW HEDGE RESERVE				
Balance as at 1 January	(7,366)	-	(7,366)	-
Effective portion of change in fair value	961,005	(181,227)	961,005	(181,227)
Net amount reclassified to profit or loss	(925,099)	173,861	(925,099)	173,861
Balance as at 31 December	28,540	(7,366)	28,540	(7,366)

	Bank		Group	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
46.6 MOVEMENT IN INVESTMENT FUND RESERVE				
Balance as at 1 January	1,557,803	1,569,655	1,557,803	1,569,655
Transferred to retained earnings	(8,727)	(11,852)	(8,727)	(11,852)
Balance as at 31 December	1,549,076	1,557,803	1,549,076	1,557,803

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. The requirement of this transfer ceased with effect from 1 October 2014.

	LKR '000
Transfers to the investment fund reserve	
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	100,000,000	01.05.2019	8.50
Treasury Bond	45,100,000	01.06.2020	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	1,611,700,000		

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	5,090,415	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		56,964,415		
Total investment in Government Securities and qualifying loans		1,668,664,415		

47. 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
47.1 COMMITMENTS				
Undrawn credit commitments	72,594,592	47,467,028	72,594,592	47,467,028
Capital commitments (Note 49.1)	950,420	572,802	981,284	573,666
Total commitments	73,545,012	48,039,830	73,575,876	48,040,694
47.2 CONTINGENCIES				
Acceptances	11,216,359	11,119,663	11,216,359	11,119,663
Standby letters of credit	524,454	77,872	524,454	77,872
Guarantees	30,677,415	27,504,396	30,675,649	27,571,396
Documentary credit	9,811,322	10,309,764	9,811,322	10,309,764
Bills for collection	2,652,762	3,389,528	2,652,762	3,389,528
Forward exchange contracts (net)	1,265,318	(940,322)	1,265,318	(940,322)
Total contingencies	56,147,630	51,460,901	56,145,864	51,527,901
Total commitments and contingencies	129,692,642	99,500,731	129,721,740	99,568,595

47.3 OTHER CONTINGENT LIABILITIES

The Bank has not recognised an additional gratuity liability in the Financial Statement for ex-employees who have not entered into the "Memorandum of Settlement (MOS)" with the Bank for the conferment of the additional gratuity and, giving the right to settle the said liability by utilising proceeds expected from disposal of shares held by share trust companies, as the establishment of the liability is contingent upon the date of signing the "Memorandum of Settlement" and the prevailing share prices as at that date of signing. If the above uncertainties are resolved, the Bank estimates an additional cash outflow of LKR 224 Mn. (net of tax).

48. 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) Argument on 30 September 2019.

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 5 March 2019.

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 have been fixed for argument on 26 September 2019.

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. The Commercial High Court case fixed for trial on 27 February 2019 and Ratnapura Court case will be called on 3 May 2019.

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 case judgement delivered in favour of the Bank on 12 June 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 dismissed on 10 April 2018 and plaintiff has appealed against the Judgement. Notice of appeal filed on 25 April 2018.

7. 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 29 March 2019.

8. 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 on 11 March 2019.

9. 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. Argument on 8 May 2019.

10. 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 20 February 2019 (Mortgage bond value LKR 38,774,635.81).

11. 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 on 6 November 2017. Bank appealed against the judgement. Case fixed for written submissions on 21 March 2019 and Argument on 25 June 2019.

12. 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 24 May 2019.

13. DMR 1674/15 (WP/HCCA/COL/144/2017/LA)

The plaintiff company 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 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 7 June 2019.

14. 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 7 June 2019.

15. DC Colombo 0093/15/DMR

This case has been filed claiming LKR 505,510.10 alleging a wrongful reduction of savings account balance. Judgment on 1 April 2019.

16. DLM 00152/2013

Plaintiff filed this action claiming LKR 10 Mn. for non-receipt of original deeds. Judgement delivered against the Bank awarding LKR 1 Mn. as damages. Plaintiff has appealed against the Judgement. Not yet listed.

17. 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 further trial on 14 June 2019.

18. DC Nugegoda M/1902/2013 and 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 further trial on 9 May 2019.

19. 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 of LKR 49.025 Mn. Case is fixed for trial on 5 April 2019.

20. 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 is fixed for trial on 26 February 2019.

21. 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 Letter of Credit. Summons returnable on the 3rd defendant who are the bankers of the beneficiary of the Letter of Credit. Written submissions due by both parties on 28 March 2019.

22. DC Kalmunai 6029/2017/M

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 pre-trial on 1 March 2019.

23. CHC 144/2018 MR

Plaintiff has filed this action against the Bank *inter alia*, the Bank has acted in contrary to their *Swift* instructions on a remittance and therefore suffered loss and damages in a sum of USD 3,880,000.00. Order on issues on 26 February 2019.

24. DC Trincomalee 4604/18/SPL

A customer has filed this case claiming LKR 30 Mn. from the Bank as damages stating that since the Bank increased the interest charged on the overdraft he was unable to complete his construction work which resulted a loss of LKR 18 Mn. Case fixed for pre-trial on 27 February 2019.

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 15 May 2019.

27. Tax matters filed by the Bank**CA TAX 23/2013 and 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, and the Tax Appeals Commission upheld assessment. This case was filed by the Bank to get an opinion from the Court of Appeal settlement against the determination given by the Tax Appeals Commission. Court of Appeal gave an interim order in respect of a preliminary issue raised by the Bank in favour of the Commissioner General of Inland Revenue. The Bank appealed to the Supreme Court and the Supreme Court granted leave to appeal and the hearing was concluded on 28 March 2017. The Judgment in this matter was reserved. CA Tax 23/2013 is listed on 10 June 2019 for argument.

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

Filed DTR 003/2016 to DTR 006/2016 against the Bank and the share owning trust companies, Seybest (Private) Limited, Seyfest (Private) Limited, Sesot (Private) Limited and Seyshop (Private) Limited and Bank in District Court Colombo. Relief sought is for the implementation of the Trust Deeds. Written submissions of all parties filed and order of Court due on 1 March 2019.

Filed DTR 154/2016 to DTR 159/2016 against the Bank and 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 District Court Colombo. Relief sought is for the implementation of the Trust Deeds. Order of Court on Bank objections to reply Plaintiffs application for interrogatories due on 1 March 2019 for cases DTR 154/2016 and DTR 156/2016.

DTR 007/2017 and DTR 008/2017 filed by 59 ex-employees against the Bank and Seyfest (Private) Limited and Sesot (Private) Limited. The reliefs sought is to obtain judgement declaring the trusts as valid and its implementation. One plaintiff died and substitution to be by 8 March 2019.

DTR 001/2018 is a case filed by ex-employees against the Bank and Esots (Private) Limited. The relief sought is to obtain judgement declaring the trust as valid and its implementation. One Plaintiff died and substitution to be by 8 March 2019.

DTR 002/2018, DTR 003/2018 and DTR 004/2018 similar actions to the above has been filed by 3 ex-employees against the Bank and Seyshop (Private) Limited, Sotse (Private) Limited and Seybest (Private) Limited. Pre-trial hearing 12 March 2019.

CHC Civil 13/2017/Co 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 and Sotse (Private) Limited filed by two ex-employees. Order due on 10 May 2019.

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 additional gratuity and surcharge.

49. 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
49.1 Approved and contracted for	950,420	572,802	981,284	573,666
49.2 Approved but not contracted for	22,745	141,241	22,745	1,075,241

50. 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”.

50.1 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 a 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Less than one year	266,877	215,196	39,971	44,597
Between one and five years	791,157	871,239	791,158	700,641
More than five years	1,201,272	1,161,451	1,201,282	1,161,461
	2,259,306	2,247,886	2,032,411	1,906,699

50.2 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Less than one year	-	-	40,615	57,135
Between one and five years	-	-	22,168	11,964
	-	-	62,783	69,099

The future minimum lease payments are presented above based on lease agreements with tenants, where the maximum period is two years.

51. EVENTS AFTER THE REPORTING DATE

PROPOSED FINAL DIVIDEND

The Board of Directors of the Bank recommended a final dividend of LKR 2.50 per share on both voting and non-voting shares of the Bank, to be paid by way of LKR 0.50 cash dividend per share and LKR 2.00 scrip dividend per share for the financial year 2018. Further, this dividend is to be approved at the Annual General Meeting to be held on 28 March 2019. This proposed final dividend has not been recognised as a liability as at 31 December 2018. Final dividend proposed for the year 2018 amounts to LKR 915,247,730.00.

Compliance with Sections 56 and 57 of 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)

A public issue of Thirty million (30,000,000) Fully Paid, BASEL III Compliant, Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures (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 upto a further Twenty million (20,000,000) Debentures in the event of an oversubscription at the discretion of the Bank which said issue will be limited to “qualified investors” (as defined in Section 2.2.1-I of the Rules of the Colombo Stock Exchange), has been announced and an Extraordinary General Meeting of the Bank has been convened by the Bank to be held on 7 March 2019 to obtain shareholders approval for the Bank to proceed with the same. The proposed issue is subject to the approval of the Colombo Stock Exchange.

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements other than above.

52. RELATED PARTY TRANSACTIONS

52.1 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 52.2 and the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group.

52.1.1 COMPENSATION OF KMP

For the year ended 31 December	Bank		Group	
	2018 LKR Mn.	2017 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.
52.1.1.1 COMPENSATION				
Short-term employment benefits	93.59	102.55	96.03	104.84
Post-employment benefits	8.16	8.80	8.16	8.80
Total	101.75	111.35	104.19	113.64
Other non-cash benefits to KMP	2.70	5.00	2.70	5.00

52.1.2 TRANSACTIONS, ARRANGEMENTS AND AGREEMENTS INVOLVING KMP AND THEIR CFM

As at 31 December	2018 LKR Mn.	2017 LKR Mn.
52.1.2.1 STATEMENT OF FINANCIAL POSITION – BANK/GROUP		
Assets		
Loans and advances	11.56	18.20
Credit cards	1.39	1.08
Securities purchased under resale agreements	-	71.55
Total	12.95	90.83
Liabilities		
Deposit	99.32	120.35
Other investments	28.27	127.27
Total	127.59	247.62
52.1.2.2 COMMITMENT AND CONTINGENCIES – BANK/GROUP		
Undrawn facilities	24.08	41.03
Total	24.08	41.03
52.1.2.3 ACCOMMODATION AS A PERCENTAGE OF BANK'S REGULATORY CAPITAL		
Direct and indirect accommodation* (%)	0.08	0.36

* Includes securities purchased under resale agreements.

For the year ended 31 December	2018 LKR Mn.	2017 LKR Mn.
52.1.2.4 INCOME STATEMENT – BANK/GROUP		
Interest income	1.79	10.52
Interest expenses	8.04	18.71
Compensation to KMP – Bank	104.45	116.35
Compensation to KMP – Group	106.89	118.64

As at 31 December	2018	2017
52.1.2.5 SHAREHOLDING OF KMP AND CFM		
Investment in Bank shares – voting (Number of shares)	40,498	39,522
Investment in Bank shares – non-voting (Number of shares)	211,275	213,319
Net dividend paid (LKR Mn.)	0.77	0.72

52.2 OTHER RELATED PARTY TRANSACTIONS

The Bank/Group had the following financial dealings during the year 2018 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:

52.2.1 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	
	2018 LKR Mn.	2017 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.
52.2.1.1 STATEMENT OF FINANCIAL POSITION – BANK/GROUP										
Assets										
Loans and advances	-	-	96.58	97.05	-	-	5,995.83	2,719.52	7,487.67	3,136.03
Other receivable – rent deposit	40.60	30.00	-	-	-	-	-	-	-	-
Quoted equities	-	-	-	-	-	-	10.00*	10.00*	-	-
Debentures	-	-	-	-	-	-	124.53**	74.53	665.00	665.00
Interest and other receivable	-	-	144.54	139.72	-	-	14.75	3.57	24.26	18.89
Total	40.60	30.00	241.12	236.77	-	-	6,145.11	2,807.62	8,176.93	3,819.92
Liabilities										
Deposit	108.35	979.90	3,956.76	213.99	577.76	959.97	1,098.17	272.10	364.57	1,498.96
Securities sold under repurchase agreements	-	-	1,225.00	3,014.35	-	-	-	1.53	-	-
Other instruments including debentures	100.00	150.00	4,464.28	5,311.98	1,819.09	1,268.61	110.84	110.84	-	-
Interest and other payable	3.34	15.21	249.41	171.41	80.21	0.04	0.12	0.61	0.10	77.41
Total	211.69	1,145.11	9,895.45	8,711.73	2,477.06	2,228.62	1,209.13	385.08	364.67	1,576.37
52.2.1.2 COMMITMENT AND CONTINGENCIES – BANK/GROUP										
Non-funded facilities	1.77	-	-	-	-	-	1,025.88	1,598.57	948.46	1,531.84
Undrawn facilities	175.00	75.00	104.71	104.25	-	-	3,498.25	3,131.37	419.30	1,656.99
Total	176.77	75.00	104.71	104.25	-	-	4,524.13	4,729.94	1,367.76	3,188.83
52.2.1.3 ACCOMMODATION AS A PERCENTAGE OF BANK'S REGULATORY CAPITAL										
Direct and indirect accommodation (%)	0.40	0.21	0.46	0.55	-	-	24.37	20.64	21.79	19.18

* Includes Quoted equities held by Seylan Developments PLC (2,000,000 shares @ LKR 5.00 each)

**Includes Debenture investment held by Seylan Developments PLC (500,000 Debentures @ LKR 100.00 each)

For the year ended 31 December	Subsidiary		Share trust companies and post-employment benefit plans		State institutions		Shareholders with significant influence		Common directorship entities	
	2018 LKR Mn.	2017 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.
52.2.1.4 INCOME STATEMENT – BANK/GROUP										
Income	87.48	70.74	36.99	30.55	-	22.40	707.66	595.47	411.80	216.35
Expenses	243.51	216.08	728.16	667.05	194.34	219.44	60.53	210.42	6.99	220.84
52.2.1.5 OTHER TRANSACTIONS – BANK/GROUP										
Other payments	-	-	175.55	156.81	-	-	-	-	-	-

As at 31 December	Share trust companies and post-employment benefit plans		State institutions		Shareholders with significant influence		Common directorship entities	
	2018	2017	2018	2017	2018	2017	2018	2017
52.2.1.6 SHAREHOLDING OF OTHER RELATED PARTIES								
Investment in Bank shares – voting (No. of shares)	13,341,918	13,016,509	41,423,398	40,413,072	43,129,117	42,077,189	-	-
Investment in Bank shares – non-voting (No. of shares)	-	-	-	-	81,620,088	78,412,313	32,309	31,040
Net dividend paid (LKR Mn.)	41.41	37.66	128.58	116.94	383.35	345.57	0.10	0.09

52.2.2 TRANSACTIONS WITH THE GOVERNMENT OF SRI LANKA/ENTITIES CONTROLLED, JOINTLY CONTROLLED, SIGNIFICANTLY INFLUENCED BY THE GOVERNMENT OF SRI LANKA

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.

52.2.2.1 VOTING SHARES HELD BY STATE INSTITUTIONS IN SEYLAN BANK PLC AS AT 31 DECEMBER 2018

	Number of shares - voting	%
Sri Lanka Insurance Corporation Limited	27,615,598	15.00
Bank of Ceylon	13,807,800	7.50
Employees' Provident Fund	18,148,076	9.86
Employees' Trust Fund Board	3,914,857	2.13

52.2.2.2 NON-VOTING SHARES HELD BY STATE INSTITUTIONS IN SEYLAN BANK PLC AS AT 31 DECEMBER 2018

	Number of shares - non-voting	%
Employees' Provident Fund	9,707,547	5.33
Employees' Trust Fund Board	2,895,445	1.59

52.2.2.3 CENTRAL BANK OF SRI LANKA

Relationship with the Bank	Nature of the transactions	Amount LKR '000
Government-related entity	Treasury Bills	3,300,557
	Treasury Bonds including Sri Lanka Development Bonds	81,999,152
	Interest income (Note 7.3)	7,682,768
	Interest expenses (Note 7.3)	767,809
	Annual license fees	23,150
	Sri Lanka Deposit Insurance Fund Contribution (Note 13)	338,843
	Balances with Central Bank of Sri Lanka (Note 20)	18,472,275

Other than above, the Bank has carried out transactions in the ordinary cause of business with the Government of Sri Lanka and other Government-related entities in the form of utility bills, telephone charges, crib charges, statutory payments, etc. There are no other transactions that are collectively significant with Government-related entities.

53. MATURITY ANALYSIS

53.1 ASSETS – BANK

An analysis of the total assets employed as at 31 December 2018 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 31.12.2018 LKR '000
Interest earning assets						
Loans and advances	146,034,142	67,884,256	63,456,953	31,854,269	17,652,918	326,882,538
Government of Sri Lanka Treasury Bills/Bonds and Development Bonds	7,346,010	10,530,817	25,091,662	34,209,670	8,112,053	85,290,212
Investments in debentures	-	135,719	69,296	-	665,000	870,015
Securities purchased under resale agreements	5,457,206	4,961	-	-	-	5,462,167
	158,837,358	78,555,753	88,617,911	66,063,939	26,429,971	418,504,932
Non-interest earning assets						
Cash in hand	7,629,162	-	-	-	-	7,629,162
Balances with Central Bank of Sri Lanka	18,472,275	-	-	-	-	18,472,275
Balances with banks	4,944,449	-	-	-	-	4,944,449
Investments in equities	-	1,660,158	-	-	1,153,602	2,813,760
Group balances receivable	-	40,600	-	-	-	40,600
Property, plant and equipment/ leasehold rights/intangible assets	-	-	-	-	4,354,096	4,354,096
Deferred tax assets	270,275	-	-	-	-	270,275
Derivative financial instruments	929,776	747,182	-	-	-	1,676,958
Other assets	8,224,827	37	2	71	1,574	8,226,511
	40,470,764	2,447,977	2	71	5,509,272	48,428,086
Total assets	199,308,122	81,003,730	88,617,913	66,064,010	31,939,243	466,933,018

53.2 LIABILITIES AND EQUITY – BANK

An analysis of the total liabilities & equity as at 31 December 2018 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 31.12.2018 LKR '000
Interest-bearing liabilities						
Financial liabilities at amortised cost due to depositors	141,023,206	169,757,649	10,548,711	5,715,120	8,144,994	335,189,680
Financial liabilities at amortised cost due to debt securities holders	20,657,491	437,034	-	-	-	21,094,525
Due to banks and other borrowings	7,744,075	2,715,525	2,282,449	13,668,750	-	26,410,799
Debt Securities Issued	513,994	1,875,366	4,430,290	7,185,750	2,324,000	16,329,400
Group balances payable	98,598	-	-	100,000	-	198,598
	170,037,364	174,785,574	17,261,450	26,669,620	10,468,994	399,223,002
Non-interest-bearing liabilities						
Demand deposits	22,370,507	-	-	-	-	22,370,507
Other liabilities	9,317,061	-	-	-	-	9,317,061
Derivative financial instruments	145,339	-	-	-	-	145,339
Current tax liabilities	1,209,464	-	-	-	-	1,209,464
Dividend payable	44,758	-	-	-	-	44,758
Group balances payable	13,088	-	-	-	-	13,088
Equity	-	-	-	-	34,609,799	34,609,799
	33,100,217	-	-	-	34,609,799	67,710,016
Total liabilities and equity	203,137,581	174,785,574	17,261,450	26,669,620	45,078,793	466,933,018

53.3 ASSETS – GROUP

An analysis of the total assets employed as at 31 December 2018 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 31.12.2018 LKR '000
Interest earning assets						
Loans and advances	146,034,142	67,884,256	63,456,953	31,854,269	17,652,918	326,882,538
Government of Sri Lanka Treasury Bills/Bonds and Development Bonds	7,346,010	10,530,817	25,091,662	34,209,670	8,112,053	85,290,212
Investments in debentures	-	135,719	69,296	48,884	665,000	918,899
Securities purchased under resale agreements	5,457,206	4,961	-	-	-	5,462,167
	158,837,358	78,555,753	88,617,911	66,112,823	26,429,971	418,553,816
Non-interest earning assets						
Cash in hand	7,629,202	-	-	-	-	7,629,202
Balances with Central Bank of Sri Lanka	18,472,275	-	-	-	-	18,472,275
Balances with banks	4,944,449	-	-	-	-	4,944,449
Investments in equities	-	1,665,309	-	-	-	1,665,309
Investment properties	-	-	-	-	845,138	845,138
Property, plant and equipment/ leasehold rights/intangible assets	-	-	-	-	7,505,173	7,505,173
Deferred tax assets	99,648	-	-	-	-	99,648
Derivative financial instruments	929,776	747,182	-	-	-	1,676,958
Other assets	8,248,646	912	2	5,304	14,664	8,269,528
	40,323,996	2,413,403	2	5,304	8,364,975	51,107,680
Total assets	199,161,354	80,969,156	88,617,913	66,118,127	34,794,946	469,661,496

53.4 LIABILITIES AND EQUITY – GROUP

An analysis of the total liabilities and equity as at 31 December 2018 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 31.12.2018 LKR '000
Interest-bearing liabilities						
Financial liabilities at amortised cost due to depositors	141,023,206	169,757,649	10,548,711	5,715,120	8,144,994	335,189,680
Financial liabilities at amortised cost due to debt securities holders	20,657,491	437,034	-	-	-	21,094,525
Due to banks and other borrowings	7,744,075	2,715,525	2,282,449	13,668,750	-	26,410,799
Debt Securities Issued	513,994	1,875,366	4,430,290	7,185,750	2,324,000	16,329,400
	169,938,766	174,785,574	17,261,450	26,569,620	10,468,994	399,024,404
Non-interest-bearing liabilities						
Demand deposits	22,370,507	-	-	-	-	22,370,507
Other liabilities	9,413,593	-	-	-	-	9,413,593
Derivative financial instruments	145,339	-	-	-	-	145,339
Current tax liabilities	1,185,533	-	-	-	-	1,185,533
Dividend payable	58,757	-	-	-	-	58,757
Equity	-	-	-	-	36,246,906	36,246,906
Non-controlling interest	-	-	-	-	1,216,457	1,216,457
	33,173,729	-	-	-	37,463,363	70,637,092
Total liabilities and equity	203,112,495	174,785,574	17,261,450	26,569,620	47,932,357	469,661,496

54. 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 advances (including leases and bills), margin trading, insurance, deposits and other transactions and balances with corporate and retail customers.

TREASURY

The Treasury Department is responsible for managing the Bank's assets and liabilities statutory reserve requirement, liquidity, foreign exchange position and investment portfolios.

PROPERTY/INVESTMENT

The property investment income, expenses, assets and liabilities.

	Banking		Treasury	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Interest income	39,433,269	36,223,578	7,564,222	4,987,792
Interest expense	26,577,198	23,719,437	4,902,821	4,320,527
Net interest income	12,856,071	12,504,141	2,661,401	667,265
Fee and commission income	4,249,482	3,948,990	355	1,356
Fee and commission expense	170,603	125,500	27,670	38,962
Net fee and commission income	4,078,879	3,823,490	(27,315)	(37,606)
Net interest, fee and commission income	16,934,950	16,327,631	2,634,086	629,659
Net gains/(losses) from trading/net fair value gains/(losses) from financial instruments at fair value through profit or loss	-	-	961,832	(38,911)
Net gains/(losses) from derecognition of financial assets	-	-	51,936	358,636
Other operating income (net)	131,355	170,391	(313,441)	1,026,537
Inter segment revenue	(240,202)	(214,471)	162,148	141,300
Total operating income	16,826,103	16,283,551	3,496,561	2,117,221
Depreciation and amortisation charge for the year	329,537	342,413	2,446	1,164
Impairment charge for the year	3,547,746	1,546,629	(75,174)	6,965
Additional gratuity expense	-	-	-	-
Operating expenses, VAT, NBT and DRL	9,757,416	9,142,536	1,000,583	538,254
Reportable segment profit before income tax	3,191,404	5,251,973	2,568,706	1,570,838
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				
Other information				
Reportable segment assets	325,748,146	279,545,742	119,264,746	104,327,048
Segment accumulated amortisation	(1,540,992)	(733,848)	(43,631)	(25,573)
Total assets	324,207,154	278,811,894	119,221,115	104,301,475
Reportable segment liabilities and equity	359,738,993	321,813,148	61,449,330	43,281,902
Total liabilities and equity	359,738,993	321,813,148	61,449,330	43,281,902
Cash flows from operating activities	9,434,292	2,051,173	2,495,978	1,578,967
Cash flows from investing activities	311,371	(363,280)	(3,421,760)	(8,316,690)
Cash flows from financing activities	-	-	2,013,309	(1,418,676)
Capital expenditure	(607,899)	(294,640)	(37,988)	(6,336)

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	
2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
46,053	84,163	2,186,836	2,259,416	49,230,380	43,554,949
2,962	296	(42,688)	(60,311)	31,440,293	27,979,949
43,091	83,867	2,229,524	2,319,727	17,790,087	15,575,000
-	-	1,971	2,211	4,251,808	3,952,557
4,537	5,934	-	157	202,810	170,553
(4,537)	(5,934)	1,971	2,054	4,048,998	3,782,004
38,554	77,933	2,231,495	2,321,781	21,839,085	19,357,004
(198)	(1,192)	-	-	961,634	(40,103)
-	-	-	-	51,936	358,636
364,280	269,116	166,641	404,273	348,835	1,870,317
-	-	78,054	73,171	-	-
402,636	345,857	2,476,190	2,799,225	23,201,490	21,545,854
921	776	476,964	399,064	809,868	743,417
60	-	2,563	(48,898)	3,475,195	1,504,696
-	-	1,134,771	-	1,134,771	-
75,772	79,280	2,260,761	2,252,748	13,094,532	12,012,818
325,883	265,801	(1,398,869)	196,311	4,687,124	7,284,923
				1,536,268	2,281,292
				3,150,856	5,003,631
				3,137,243	4,816,834
				13,613	186,797
				3,150,856	5,003,631
				(520,242)	2,406,845
5,641,053	5,475,554	25,604,152	28,545,367	476,258,097	417,893,711
(2,371)	(1,535)	(5,009,607)	(7,149,000)	(6,596,601)	(7,909,956)
5,638,682	5,474,019	20,594,545	21,396,367	469,661,496	409,983,755
5,638,682	5,474,019	42,834,491	39,414,686	469,661,496	409,983,755
5,638,682	5,474,019	42,834,491	39,414,686	469,661,496	409,983,755
174,892	118,358	206,366	(716,122)	12,311,528	3,032,376
(908,536)	952,006	(567,077)	(645,311)	(4,586,002)	(8,373,275)
(133,168)	(110,974)	(277,845)	(332,703)	1,602,296	(1,862,353)
(21,082)	(30,165)	(557,746)	(560,608)	(1,224,715)	(891,749)

55. 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 Leasehold 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 2018	(73,633)	(51,918)	(21,715)
Reversal of deferred tax recognised in the Statement of Comprehensive Income by SD in 2018	2,258	1,592	666
Gain on revaluation of East Tower in 2018 adjusted to revaluation reserves in Consolidated Financial Statements	140,375	98,978	41,397
Deferred tax on revaluation gain of East Tower in 2018 recognised in Consolidated Financial Statements	(39,305)	(27,714)	(11,591)
Reversal of gain on disposal of assets held for sale recognised in Banks Financial Statements	(33,457)	(23,590)	(9,867)
Reversal of deferred tax on gain on disposal of assets held for sale by the Bank	9,368	6,605	2,763
	5,606	3,953	1,653
Charging of depreciation			
Charges depreciation adjusted in Consolidated Financial Statements of Comprehensive Income for 2018	(63,167)	(44,539)	(18,628)
	(63,167)	(44,539)	(18,628)

56 IMPACT ON ADOPTING SLFRS 9 – “FINANCIAL INSTRUMENTS”

56.1 IMPACT ON ADOPTING SLFRS 9 – “FINANCIAL INSTRUMENTS” ON FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME RESERVES AND RETAINED EARNINGS

The group initially adopted SLFRS 9 from 1 January 2018. As permitted by the transitional provision of SLFRS 9, the impact of adopting SLFRS 9 is considered as an adjustment to equity on 1 January 2018, without restating the comparative information.

The following table shows the impact on transition of SLFRS 9 - "Financial Instruments" on fair value through other comprehensive income reserves and retained earnings as at 1 January 2018.

	Bank		Group	
	Retained earnings LKR '000	Fair value through other comprehensive income reserve LKR '000	Retained earnings LKR '000	Fair value through other comprehensive income reserve LKR '000
Balance as per LKAS 39 as at 31 December 2017	17,178,024	945,408	17,818,539	945,496
Impact on reclassification of impairment allowance;				
LKAS 39 impairment recognition on equity securities	2,268,352	(2,268,352)	2,315,943	(2,315,943)
Impact on recognition of expected credit loss allowance;				
Expected credit loss allowance under SLFRS 9 for				
- Financial assets at amortised cost – loans and advances (Note 24.3)	(2,095,203)		(2,095,203)	
- Financial assets at amortised cost – debt and other instruments (Note 25.5)	(35,126)		(35,126)	
- Financial assets measured at FVOCI (Note 26.7)	(62,785)	62,785	(62,785)	62,785
- Placements with banks and finance companies (Note 21.1)	(7,276)		(7,276)	
- Balances with banks (Note 19.1)	(4,938)		(4,938)	
- Undrawn credit commitments and financial guarantees (Note 43.3)	(254,052)		(254,052)	
Impact on recognition of deferred tax;				
Deferred tax on fair value through other comprehensive income reserve	(635,380)	635,380	(635,380)	635,380
Deferred tax on expected credit loss allowance (Note 33)	671,046		671,046	
Impact on non-controlling interest			(14,035)	14,035
Total impact on adopting SLFRS 9 “Financial Instruments”	(155,362)	(1,570,187)	(121,806)	(1,603,743)
Balance as per SLFRS 9 as at 1 January 2018	17,022,662	(624,779)	17,696,733	(658,247)

56.2 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES ON THE DATE OF INITIAL APPLICATION OF SLFRS 9

The following table shows the original measurement categories in accordance with LKAS 39 and the new measurement categories under SLFRS 9 for the Bank's and Group's financial assets and financial liabilities as at 1 January 2018. As permitted by the transitional provision, the remeasurement impact of adopting SLFRS 9 is considered as an adjustment on 1 January 2018, without restating the comparative information.

Financial instruments	Note	Classification based on LKAS 39	New classification based on SLFRS 9	Bank			Group			Reference
				Carrying amount as at 31 December 2017 based on LKAS 39 LKR '000	Remeasurement LKR '000	Carrying amount as at 1 January 2018 based on SLFRS 9 LKR '000	Carrying amount as at 31 December 2017 based on LKAS 39 LKR '000	Remeasurement LKR '000	Carrying amount as at 1 January 2018 based on SLFRS 9 LKR '000	
Financial assets										
Cash and cash equivalents	19	L&R	Amortised cost	8,319,384	(4,938)	8,314,446	8,319,424	(4,938)	8,314,486	a
Balances with Central Bank of Sri Lanka	20	L&R	Amortised cost	19,119,843	-	19,119,843	19,119,843	-	19,119,843	
Placements with banks and finance companies	21	L&R	Amortised cost	1,455,115	(7,276)	1,447,839	1,455,115	(7,276)	1,447,839	b
Derivative financial instruments	22	FVTPL	FVTPL	60,165	-	60,165	60,165	-	60,165	
Financial assets measured at fair value through profit or loss/held for trading										
	23									
Quoted equities		FVTPL	FVTPL	3,719	-	3,719	9,068	-	9,068	
Government Securities - Treasury Bills		FVTPL	FVTPL	2,390,470	-	2,390,470	2,390,470	-	2,390,470	
Government Securities - Treasury Bonds		FVTPL	FVTPL	3,990,111	-	3,990,111	3,990,111	-	3,990,111	
Sri Lanka Development Bonds		FVTPL	FVTPL	1,554,913	-	1,554,913	1,554,913	-	1,554,913	
Financial assets at amortised cost loans and advances	24	L&R	Amortised cost	280,861,907	(2,095,203)	278,766,704	280,861,907	(2,095,203)	278,766,704	c
Financial assets measured at amortised cost - debt and other instruments										
	25									
Government Securities - Treasury Bonds		HTM	Amortised cost	17,658,702	-	17,658,702	17,658,702	-	17,658,702	
Sri Lanka Development Bonds		HTM	Amortised cost	3,006,375	(34,775)	2,971,600	3,006,375	(34,775)	2,971,600	d
Quoted debentures		HTM	Amortised cost	193,956	(42)	193,914	193,956	(42)	193,914	d
Unquoted debentures		HTM	Amortised cost	670,745	(309)	670,436	670,745	(309)	670,436	d
Securities purchased under resale agreements		L&R	Amortised cost	1,750,855	-	1,750,855	1,750,855	-	1,750,855	

Financial instruments	Note	Classification based on LKAS 39	New classification based on SLFRS 9	Bank			Group			Reference
				Carrying amount as at 31 December 2017 based on LKAS 39 LKR '000	Remeasurement LKR '000	Carrying amount as at 1 January 2018 based on SLFRS 9 LKR '000	Carrying amount as at 31 December 2017 based on LKAS 39 LKR '000	Remeasurement LKR '000	Carrying amount as at 1 January 2018 based on SLFRS 9 LKR '000	
Financial assets measured at fair value through other comprehensive income/ available for sale										
	26									
Quoted equities		AFS	FVOCI	1,094,489	-	1,094,489	1,094,489	-	1,094,489	
Unquoted equities		AFS	FVOCI	658,663	-	658,663	658,663	-	658,663	
Government Securities - Treasury Bills		AFS	FVOCI	1,186,430	-	1,186,430	1,186,430	-	1,186,430	
Government Securities - Treasury Bonds		AFS	FVOCI	44,188,330	-	44,188,330	44,188,330	-	44,188,330	
Sri Lanka Development Bonds		AFS	FVOCI	6,066,106	-	6,066,106	6,066,106	-	6,066,106	
Quoted debentures		AFS	FVOCI	313,019	-	313,019	313,019	-	313,019	
Group balances receivable	28	L&R	Amortised cost	30,000	-	30,000	-	-	-	
Other financial assets		L&R	Amortised cost	4,922,113	-	4,922,113	4,944,991	-	4,944,991	
Financial liabilities										
Due to Banks	36		Amortised cost	27,052,972	-	27,052,972	27,052,972	-	27,052,972	
Derivative financial instruments	22		FVTPL	571,557	-	571,557	571,557	-	571,557	
Financial liabilities at amortised cost - due to depositors	37		Amortised cost	307,098,902	-	307,098,902	307,098,902	-	307,098,902	
Financial liabilities at amortised cost - due to debt securities holders	38		Amortised cost	16,631,973	-	16,631,973	16,631,973	-	16,631,973	
Financial liabilities at amortised cost - due to other borrowers	39		Amortised cost	22,396	-	22,396	22,396	-	22,396	
Group balances payable	40		Amortised cost	1,145,110	-	1,145,110	-	-	-	
Debt securities issued	41		Amortised cost	12,494,025	-	12,494,025	12,494,025	-	12,494,025	
Other financial liabilities			Amortised cost	5,154,901	254,052	5,408,953	5,187,172	254,052	5,441,224	e

L&R: Loans and receivables AFS: Available for sale HTM: Held to maturity FVTPL: Fair value through profit and loss
FVOCI: Fair value through other comprehensive income

The following table reconciles the carrying amounts of financial assets as per LKAS 39 to the carrying amounts as per SLFRS 9 on transition to SLFRS 9 on 1 January 2018.

	Bank	Group
	LKR '000	LKR '000
a. Cash and cash equivalents		
Under LKAS 39, cash and cash equivalents were categorised as loans and receivables and measured at amortised cost. These assets classified as financial assets measured at amortised cost under SLFRS 9. As per SLFRS 9, financial assets measured at amortised cost are subject to expected credit loss. Therefore Bank has recognised 12 months expected credit losses for nostro balances.		
Carrying amount as at 31 December 2017 based on LKAS 39	8,319,384	8,319,424
Remeasurement: Expected credit loss allowance for nostro balances	(4,938)	(4,938)
Carrying amount as at 1 January 2018 based on SLFRS 9	8,314,446	8,314,486
b. Placements with banks and finance companies		
Under LKAS 39, placements with banks and finance companies were categorised as loans and receivables and measured at amortised cost. These assets classified as financial assets measured at amortised cost under SLFRS 9. As per SLFRS 9, financial assets measured at amortised cost are subject to expected credit loss. Therefore bank has recognised 12 months expected credit losses for placements with banks and finance companies.		
Carrying amount as at 31 December 2017 based on LKAS 39	1,455,115	1,455,115
Remeasurement: Expected credit loss allowance for placements with banks and finance companies	(7,276)	(7,276)
Carrying amount as at 1 January 2018 based on SLFRS 9	1,447,839	1,447,839
c. Financial assets at amortised cost – loans and advances		
Under LKAS 39, loans and advances were categorised as loans and receivables and measured at amortised cost. These assets classified as financial assets measured at amortised cost under SLFRS 9. As per SLFRS 9, financial assets measured at amortised cost are subject to expected credit loss. Therefore bank has recognised expected credit losses for loans and advances.		
Carrying amount as at 31 December 2017 based on LKAS 39	280,861,907	280,861,907
Remeasurement: Expected credit loss allowance for loans and advances	(2,095,203)	(2,095,203)
Carrying amount as at 1 January 2018 based on SLFRS 9	278,766,704	278,766,704
d. Financial assets measured at amortised cost – debt and other instruments		
Under LKAS 39, The financial assets which were categorised as held to maturity and measured at amortised cost. These assets classified as financial assets measured at amortised cost under SLFRS 9. As per SLFRS 9, Financial assets measured at amortised cost are subject to expected credit loss. Therefore bank has recognised 12 months expected credit losses for debentures and Sri Lanka Development bonds.		
Carrying amount as at 31 December 2017 based on LKAS 39	23,280,633	23,280,633
Remeasurement: Expected credit loss allowance for debentures and Sri Lanka Development Bonds	(35,126)	(35,126)
Carrying amount as at 1 January 2018 based on SLFRS 9	23,245,507	23,245,507
e. Other financial liabilities		
The Bank recognised expected credit loss on undrawn credit commitments and financial guarantees in accordance with SLFRS 9		
Carrying amount as at 31 December 2017 based on LKAS 39	5,154,901	5,187,172
Remeasurement: Expected credit loss allowance for undrawn credit commitments and financial guarantees	254,052	254,052
Carrying amount as at 1 January 2018 based on SLFRS 9	5,408,953	5,441,224

ANNEXES

Ten Years at a Glance	268
Summary of Performance Indicators	269
Statement of Comprehensive Income in US Dollars	270
Statement of Financial Position in US Dollars	271
Investor Information	272
Seylan Bank PLC – Debentures	274
Branch and ATM Network	277
Geographical Analysis	278
GRI Content Index	279
Alphabetical Index	282
Glossary	283
Sinhala Translation of the Chairman’s Letter	286
Tamil Translation of the Chairman’s Letter	287
Circular to Shareholders	288
Notice of Meeting	290
Corporate Information	292

TEN YEARS AT A GLANCE

<i>Year ended 31 December</i>	2018	2017	2016	2015	2014	2013	2012	2011	2010*	2009* (Restated)
	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.
Trading results										
Gross income	54,873	49,161	37,873	28,586	28,564	28,091	23,726	18,824	20,032	23,155
Profit before income tax	4,666	6,656	5,734	5,777	4,649	3,454	3,199	1,181	1,998	893
Income tax	1,477	2,226	1,724	1,946	1,571	1,138	1,135	505	769	349
Profit after taxation	3,189**	4,430	4,010	3,831	3,078	2,316	2,064	676	1,229	544
Other comprehensive income, net of tax	(617)	2,426	(345)	(1,054)	(55)	913	(139)	(346)	-	-
Total comprehensive income	2,572	6,856	3,665	2,777	3,023	3,229	1,925	330	-	-
Dividends proposed (ordinary) LKR per share	2.50	3.50	3.25	2.75	2.50	2.25	2.00	1.00	1.00	0.50

**Profit before additional gratuity and after tax is LKR 4,006 Mn.

<i>As at 31 December</i>	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009* (Restated)
	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.
Financial position										
Assets										
Cash and short term funds (including securities purchased under resale agreements)	18,036	10,070	15,653	10,113	24,436	10,910	6,728	7,865	5,965	7,636
Balances with Central Bank of Sri Lanka	18,472	19,120	16,212	8,564	7,432	7,505	8,029	7,071	5,454	5,084
Investments (including investment properties)	87,820	82,976	73,336	72,203	48,859	49,351	33,879	35,033	40,341	30,287
Loans and advances, placements with banks and finance companies (including leases and bills of exchange)	326,883	282,317	236,355	193,862	157,297	137,523	124,728	106,390	89,091	80,287
Investment in subsidiary	1,154	1,154	1,154	1,152	1,106	801	793	793	359	860
Other assets (including taxation)	10,214	8,590	8,669	6,915	6,887	5,994	6,871	5,977	6,011	5,223
Property, plant and equipment, leasehold rights and intangible assets	4,354	3,899	4,634	3,522	3,294	3,077	2,633	2,815	3,010	3,387
Total assets	466,933	408,126	356,013	296,331	249,311	215,161	183,661	165,944	150,231	132,764
Liabilities										
Customer deposits and due to banks	383,939	334,152	291,185	244,310	197,540	178,916	152,865	131,292	112,880	104,816
Borrowings and debentures	37,456	29,148	28,491	18,605	20,090	7,830	4,896	12,203	18,183	9,165
Other liabilities	9,674	8,197	7,756	7,486	6,327	5,546	6,353	4,906	6,366	8,189
Taxation (including deferred taxation)	1,209	2,381	762	843	1,324	1,091	683	217	41	-
Dividends payable	45	42	46	31	21	16	13	24	22	23
Total liabilities	432,323	373,920	328,240	271,275	225,302	193,399	164,810	148,642	137,492	122,193
Equity										
Stated capital	12,026	11,228	10,530	10,530	10,530	10,530	10,225	10,259	5,568	5,568
Reserve fund	1,769	1,609	1,388	1,187	996	842	726	619	569	507
Reserves	20,815	21,369	15,855	13,339	12,483	10,390	7,900	6,424	6,602	4,496
Total equity	34,610	34,206	27,773	25,056	24,009	21,762	18,851	17,302	12,739	10,571
Total equity and liabilities	466,933	408,126	356,013	296,331	249,311	215,161	183,661	165,944	150,231	132,764
Commitments and contingencies	129,693	99,501	64,111	57,222	45,098	35,473	31,287	36,247	30,197	22,263

* Based on SLAS applicable prior to 1 January 2012.

SUMMARY OF PERFORMANCE INDICATORS

	Measure	2018	2017	2016	2015	2014	
Size							
Assets growth	%	14.41	14.64	20.14	18.86	15.87	
Commitments and contingencies/(total assets + commitments and contingencies)	%	21.74	19.60	15.26	16.18	15.32	
Interest earning assets/total assets	%	89.63	89.50	88.67	90.11	88.76	
Cash and balances with CBSL/total assets	%	6.65	6.72	6.90	5.52	5.66	
Risk-weighted assets growth	%	19.36	14.47	23.21	22.72	19.38	
Profitability							
Return on average assets	%	0.73	1.16	1.23	1.40	1.33	
Return on average assets (excluding additional gratuity expense)	%	0.92	1.16	1.23	1.40	1.33	
Return on average equity	%	9.27	14.30	15.18	15.62	13.45	
Return on average equity (excluding additional gratuity expense)	%	11.51	14.30	15.18	15.62	13.45	
Profit for the year/(total assets + commitments and contingencies)	%	0.53	0.87	0.95	1.08	1.05	
Net interest margin	%	4.24	4.24	4.27	4.42	4.92	
Net interest income/total income	%	32.34	31.40	35.35	41.37	39.09	
Cost to income ratio (including additional gratuity expense)	%	64.90	61.02	62.35	61.20	57.37	
Cost to income ratio (excluding additional gratuity expense)	%	60.00	61.02	62.35	61.20	57.37	
Cost to income ratio (excluding additional gratuity expense, VAT, NBT, and DRL)	%	50.89	51.97	54.75	53.41	49.96	
Average interest yield	%	12.56	12.79	11.26	9.64	10.95	
Average interest cost	%	8.47	8.73	7.35	5.50	6.48	
Interest rate spread	%	4.09	4.06	3.91	4.14	4.47	
Interest yield on average customer advances	%	13.13	13.17	11.56	10.00	11.90	
Interest cost on average customer deposits	%	7.92	8.01	6.44	4.97	6.14	
Spread on customer deposits and advances	%	5.21	5.16	5.12	5.03	5.76	
Dividend payout*	%	28.70	28.00	27.95	24.76	28.01	
Growth rate of equity	%	1.18	23.17	10.84	4.36	10.33	
Earnings per share**	LKR	8.71	12.10	10.95	10.46	8.41	
Earnings per share (excluding additional gratuity expense)**	LKR	10.94	12.10	10.95	10.46	8.41	
Ordinary dividends per share	LKR	2.50	3.50	3.25	2.75	2.50	
Net assets value per share	LKR	94.54	96.50	80.51	72.63	69.60	
Asset quality							
Expected credit loss/impairment allowance for loans and advances	LKR Mn.	9,893	5,607	6,053	5,738	7,012	
Expected credit loss/impairment allowance for loans and advances	%	2.94	1.96	2.50	2.89	4.33	
Provision cover	%	43.63	40.31	43.93	46.80	47.00	
Capital adequacy							
Leverage on share holders funds	Times	12.49	10.93	11.82	10.83	9.38	
Leverage on capital funds (including debentures)	Times	8.17	7.74	7.84	8.19	6.87	
Percentage earnings retained	%	71.30	72.00	72.05	75.24	71.99	
Equity/deposits, borrowings, and securities sold under re-purchase agreements	%	8.54	9.75	9.04	9.80	11.43	
Equity/total assets	%	7.41	8.38	7.80	8.46	9.63	
Equity/loans and advances	%	10.28	11.94	11.47	12.60	14.82	
Liquidity and funding							
Loans and advances/deposits, borrowings, and securities sold under re-purchase agreements	%	83.14	81.66	78.80	77.75	77.14	
Deposits/deposits, borrowings, debentures and securities sold under repurchase agreements	%	84.85	84.53	85.54	85.40	85.43	
Liquid assets/total assets	%	22.57	24.06	24.83	26.50	26.70	
Liquid assets/deposits, borrowings, and securities sold under repurchase agreements	%	26.02	27.99	28.78	30.70	31.71	
Net lending or (borrowings) in call money market	LKR Mn.	(10,796)	(11,056)	(16,382)	(18,264)	(7,834)	
Other data							
Number of banking centres		170	166	166	159	157	
Number of staff members		3,344	3,199	3,165	3,085	2,947	
Profit per staff member	LKR '000	954	1,385	1,267	1,242	1,045	
Number of ordinary shares	- Voting	000	184,104	179,614	175,977	175,977	
	- Non-voting	000	181,995	174,842	168,983	168,983	
Share prices as at 31 December	- Voting	LKR	78.00	87.20	90.00	95.00	95.00
	- Non-voting	LKR	44.50	56.00	59.00	73.00	57.50

* Dividends for the year 2018 are accounted for as per Sri Lanka Accounting Standards - LKAS 10

** Earnings per share has been restated as per Sri Lanka Accounting Standards - LKAS 33

STATEMENT OF COMPREHENSIVE INCOME IN US DOLLARS

For the year ended 31 December	Bank			Group		
	2018 USD '000	2017 USD '000	Change %	2018 USD '000	2017 USD '000	Change %
Gross income	301,084	321,001	(6.20)	300,931	324,495	(7.26)
Interest income	270,119	284,355	(5.01)	270,126	284,394	(5.02)
Less: Interest expenses	172,742	183,205	(5.71)	172,512	182,696	(5.57)
Net interest income	97,377	101,150	(3.73)	97,614	101,698	(4.02)
Fee and commission income	23,332	25,810	(9.60)	23,330	25,809	(9.61)
Less: Fee and commission expenses	1,088	1,075	1.21	1,113	1,114	(0.09)
Net fee and commission income	22,244	24,735	(10.07)	22,217	24,695	(10.03)
Net gains/(losses) from trading/net fair value gains/(losses) from financial instruments at fair value through profit or loss	5,278	(254)	2,177.95	5,276	(262)	2,113.74
Net gains/(losses) from derecognition of financial assets	285	2,342	(87.83)	285	2,342	(87.83)
Net other operating income	2,070	8,749	(76.34)	1,914	12,212	(84.33)
Total operating income	127,254	136,722	(6.93)	127,306	140,685	(9.51)
Impairment charges	19,068	9,825	94.08	19,068	9,825	94.08
Net operating income	108,186	126,897	(14.75)	108,238	130,860	(17.29)
Personnel expenses	31,727	33,927	(6.48)	31,915	34,142	(6.52)
Depreciation and amortisation expenses	4,092	4,543	(9.93)	4,444	4,854	(8.45)
Other expenses	28,940	32,588	(11.19)	28,339	31,989	(11.41)
Operating profit before additional gratuity expense	43,427	55,839	(22.23)	43,540	59,875	(27.28)
Additional gratuity expense	6,226	-	-	6,226	-	-
Operating profit before taxes	37,201	55,839	(33.38)	37,314	59,875	(37.68)
Value added tax on financial services	9,193	10,919	(15.81)	9,193	10,852	(15.29)
Nation building tax on financial services	1,226	1,456	(15.80)	1,226	1,456	(15.80)
Debt repayment levy	1,177	-	-	1,177	-	-
Profit before income tax	25,605	43,464	(41.09)	25,718	47,567	(45.93)
Income tax expense	8,106	14,536	(44.24)	8,429	14,896	(43.41)
Profit for the year	17,499	28,928	(39.51)	17,289	32,671	(47.08)
Profit attributable to:						
- Equity holders of the Bank	17,499	28,928	(39.51)	17,214	31,451	(45.27)
- Non-controlling interest	-	-	-	75	1,220	(93.85)
Profit for the year	17,499	28,928	(39.51)	17,289	32,671	(47.08)
Basic/diluted earnings per share (USD)	0.05	0.08	(39.51)	0.05	0.09	(45.27)
Basic/diluted earnings per share excluding additional gratuity expense (USD)	0.06	0.08	(25.00)	0.06	0.09	(33.33)
Other comprehensive income, net of tax						
Items that will be reclassified to income statement						
Net movement of cash flow hedges	197	(48)	510.42	197	(48)	510.42
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	(6,064)			(6,087)		
Net gain/(loss) on remeasuring of available-for-sale financial assets		17,219	(123.49)		17,234	(123.60)
Items that will not be reclassified to income statement						
Change in fair value on investments in equity instruments measured at fair value through other comprehensive income	2,020			2,020		
Revaluation of property, plant and equipment	-	-	-	555	(133)	517.29
Deferred tax on revaluation surplus of land	-	(1,515)	100.00	-	(1,515)	100.00
Actuarial gain on defined benefit obligations	463	184	151.63	460	178	158.43
Other comprehensive income for the year, net of tax	(3,384)	15,840	(121.36)	(2,855)	15,716	(118.17)
Total comprehensive income for the year	14,115	44,768	(68.47)	14,434	48,387	(70.17)
Total comprehensive income attributable to:						
- Equity holders of the bank	14,115	44,768	(68.47)	14,203	47,204	(69.91)
- Non-controlling interest	-	-	-	231	1,183	(80.47)
Total comprehensive income for the year	14,115	44,768	(68.47)	14,434	48,387	(70.17)

Exchange rate of USD 1 was LKR 182.25 as at 31 December 2018 (LKR 153.15 as at 31 December 2017).

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		
	2018 USD '000	2017 USD '000	Change %	2018 USD '000	2017 USD '000	Change %
Assets						
Cash and cash equivalents	68,991	54,322	27.00	68,991	54,322	27.00
Balances with Central Bank of Sri Lanka	101,357	124,844	(18.81)	101,357	124,844	(18.81)
Placements with banks and finance companies	-	9,501	(100.00)	-	9,501	(100.00)
Derivative financial instruments	9,201	393	2,241.22	9,201	393	2,241.22
Financial assets recognised through profit or loss/held for trading						
- Measured at fair value	26,987	51,839	(47.94)	27,015	51,874	(47.92)
- Designated at fair value	-	-	-	-	-	-
Financial assets at amortised cost						
- Loans and advances	1,793,594	1,833,901	(2.20)	1,793,594	1,833,901	(2.20)
- Debt and other instruments	162,379	152,012	6.82	162,379	152,012	6.82
Financial assets measured at fair value through other comprehensive income/available for sale						
Investment in subsidiary	6,330	7,532	(15.96)	-	-	-
Group balances receivable	223	196	13.78	-	-	-
Property, plant & equipment	20,519	22,822	(10.09)	34,881	39,188	(10.99)
Leasehold rights	211	264	(20.08)	3,138	3,796	(17.33)
Investment properties	-	-	-	4,637	5,561	(16.62)
Intangible assets	3,161	2,373	33.21	3,161	2,373	33.21
Deferred tax assets	1,483	-	-	547	-	-
Assets held for sale	-	5,880	(100.00)	-	-	-
Other assets	45,138	49,621	(9.03)	45,375	49,866	(9.01)
Total assets	2,562,047	2,664,877	(3.86)	2,577,017	2,677,008	(3.74)
Liabilities						
Due to banks	144,740	176,644	(18.06)	144,740	176,644	(18.06)
Derivative financial instruments	797	3,732	(78.64)	797	3,732	(78.64)
Financial liabilities at amortised cost						
- Due to depositors	1,961,921	2,005,216	(2.16)	1,961,921	2,005,216	(2.16)
- Due to debt securities holders	115,745	108,599	6.58	115,745	108,599	6.58
- Due to other borrowers	176	146	20.55	176	146	20.55
Group balances payable	1,162	7,477	(84.46)	-	-	-
Debt securities issued	89,599	81,580	9.83	89,599	81,580	9.83
Current tax liabilities	6,636	6,676	(0.60)	6,505	6,832	(4.79)
Deferred tax liabilities	-	8,874	(100.00)	-	9,346	(100.00)
Other liabilities	51,368	42,583	20.63	51,973	43,054	20.72
Total liabilities	2,372,144	2,441,527	(2.84)	2,371,456	2,435,149	(2.62)
Equity						
Stated capital	65,985	73,316	(10.00)	65,985	73,316	(10.00)
Statutory reserve fund	9,706	10,509	(7.64)	9,706	10,509	(7.64)
Retained earnings	108,635	112,165	(3.15)	112,040	116,347	(3.70)
Other reserves	5,577	27,360	(79.62)	11,155	33,762	(66.96)
Total equity attributable to equity holders of the Bank	189,903	223,350	(14.98)	198,886	233,934	(14.98)
Non-controlling interest	-	-	-	6,675	7,925	(15.77)
Total equity	189,903	223,350	(14.98)	205,561	241,859	(15.01)
Total equity and liabilities	2,562,047	2,664,877	(3.86)	2,577,017	2,677,008	(3.74)
Commitments and contingencies	711,619	649,695	9.53	711,779	650,138	9.48
Net assets value per share (USD)	0.52	0.63	(17.46)	0.54	0.66	(18.18)

Exchange rate of USD 1 was LKR 182.25 as at 31 December 2018 (LKR 153.15 as at 31 December 2017).

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 2018

	2018		Comparative holdings of the top 20 holders in 2017	
	Number of shares	%	Number of shares	%
1. Sri Lanka Insurance Corporation Limited [includes Sri Lanka Insurance Corporation Limited - (General Fund) - 18,410,399 and Sri Lanka Insurance Corporation Limited - (Life Fund) - 9,205,199]	27,615,598	15.00	26,942,047	15.00
2. Brown & Company PLC A/c No. 1	25,544,310	13.87	24,921,279	13.87
3. Employees' Provident Fund	18,148,076	9.86	17,705,441	9.86
4. LOLC Investments Limited	17,584,715	9.55	17,155,820	9.55
5. National Development Bank PLC A/c No. 2	16,062,819	8.72	15,671,043	8.72
6. Bank of Ceylon No. 1 Account	13,807,800	7.50	13,471,025	7.50
7. Mr R S Captain	11,305,272	6.14	10,876,665	6.06
8. Employees' Trust Fund Board	3,914,857	2.13	3,240,747	1.81
9. Mr S E Captain	3,722,015	2.02	3,631,235	2.02
10. Seyfest (Private) Limited	3,157,307	1.71	3,080,300	1.71
11. Ms L A Captain	2,590,415	1.41	2,517,488	1.40
12. Sesot (Private) Limited	2,384,287	1.30	2,326,134	1.30
13. Seybest (Private) Limited	2,265,433	1.23	2,210,179	1.23
14. Seyshop (Private) Limited	2,265,433	1.23	2,210,179	1.23
15. Esots (Private) Limited	2,247,331	1.22	2,192,519	1.22
16. Ambeon Holdings PLC	2,175,175	1.18	2,122,122	1.18
17. Capital Development and Investment Company PLC A/c No. 2	1,864,739	1.01	1,819,258	1.01
18. AIA Insurance Lanka PLC A/c No. 7	1,693,458	0.92	1,652,155	0.92
19. N P Capital Limited	1,164,796	0.63	-	-
20. Mr K R B Fernando	1,062,137	0.58	1,036,232	0.58
Total shares held by the top 20 holders	160,575,973	87.22	-	-
Balance shares held by other 9,010 ordinary voting shareholders - as at 31 December 2018	23,528,037	12.78	-	-
Total ordinary voting shares issued by the Bank	184,104,010		179,613,669	
Total ordinary voting shareholders	9,030		9,047	

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:

- 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.
- 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 which deadline was further extended up to 31 March 2019 by the Central Bank.

TWENTY LARGEST ORDINARY (NON-VOTING) SHAREHOLDERS AS AT 31 DECEMBER 2018

	2018		Comparative holdings of the top 20 holders in 2017	
	Number of shares	%	Number of shares	%
1. LOLC Holdings PLC	79,955,209	43.93	76,812,865	43.93
2. Employees' Provident Fund	9,707,547	5.33	9,326,028	5.33
3. Akbar Brothers (Private) Limited A/c No. 1	3,782,747	2.08	3,290,099	1.88
4. J B Cocoshell (Private) Limited	3,484,169	1.91	3,215,920	1.84
5. Deutsche Bank AG as Trustees for JB Vantage Value Equity Fund	3,361,368	1.85	3,229,262	1.85
6. Pershing LLC S/A Averbach Grauson & Co.	3,277,769	1.80	3,168,808	1.81
7. Employees' Trust Fund Board	2,895,445	1.59	2,124,675	1.22
8. Commercial Bank of Ceylon PLC/Dunamis Capital PLC	2,781,131	1.53	2,671,829	1.53
9. Mr E Thavagnanasooriyam and Mr E Thawagnasundaram	2,489,991	1.37	2,672,628	1.53
10. Merrill J Fernando & Sons (Private) Limited	2,021,594	1.11	1,942,143	1.11
11. Assetline Leasing co. Limited/Don & Don Holdings (Private) Limited	1,972,568	1.08	-	-
12. Mr N Balasingam	1,898,423	1.04	1,823,813	1.04
13. Mr R R Leon	1,604,612	0.88	-	-
14. LOLC Technology Services Limited	1,584,901	0.87	1,522,613	0.87
15. Dr S Yaddhegige	1,141,365	0.63	1,096,508	0.63
16. Mr R Gautam	1,029,488	0.57	890,500	0.51
17. SSBT-Deutsche Bank AG Singapore A/C 01	924,693	0.51	-	-
18. Mr M J Fernando	915,451	0.50	879,473	0.50
19. Mr A P Somasiri	903,877	0.50	868,354	0.50
20. Deutsche Bank AG as Trustee for NAMAL Acuity Value Fund	888,551	0.49	1,189,875	0.68
Total shares held by the top 20 holders	126,620,899	69.57	-	-
Balance shares held by other 6,708 ordinary non-voting shareholders - as at 31 December 2018	55,374,183	30.43	-	-
Total ordinary non-voting shares issued by the Bank	181,995,082		174,842,437	
Total ordinary non-voting shareholders	6,728		6,688	

SHAREHOLDINGS OF DIRECTORS AS AT 31 DECEMBER 2018

Directors' shareholdings including the Director/Chief Executive Officer's holding as at 31 December 2018 are given on page 131 of the Report of the Board of Directors.

ORDINARY SHARES (QUOTED)

	Voting (SEYB-N)		Non-Voting (SEYB-X)	
	2018	2017	2018	2017
Number. of shares issued	184,104,010	179,613,669	181,995,082	174,842,437
Dividend (LKR per share) Cash	Proposed: 0.50	1.00	Proposed: 0.50	1.00
Scrip	Proposed: 2.00	2.50	Proposed: 2.00	2.50
Share prices				
Highest (LKR)	94.80	99.90	59.00	63.50
Lowest (LKR)	64.10	83.60	37.00	51.50
Last traded (LKR)	78.00	87.20	44.50	56.00
Percentage of public holding (%)	54.30	54.29	55.94	55.94

ANALYSIS OF THE DISTRIBUTION OF SHAREHOLDERS AS AT 31 DECEMBER 2018

Range of shareholding	Ordinary (Voting) shares			Ordinary (Non-voting) shares		
	Number of shareholders	Number of shares	Percentage of shareholding %	Number of shareholders	Number of shares	Percentage of shareholding %
1 - 1,000	6,860	1,464,595	0.79	3,447	1,009,631	0.55
1,001 - 10,000	1,880	4,780,358	2.60	2,506	7,548,563	4.15
10,001 - 100,000	230	5,569,750	3.02	653	17,659,252	9.70
100,001 - 1,000,000	39	10,691,207	5.81	106	32,789,309	18.02
1,000,001 and above	21	161,598,100	87.78	16	122,988,327	67.58
Total	9,030	184,104,010	100.00	6,728	181,995,082	100.00
Resident/non-resident						
Resident	8,886	180,498,093	98.04	6,650	168,562,006	92.62
Non-resident	144	3,605,917	1.96	78	13,433,076	7.38
Individuals/Institutions						
Individuals	8,753	33,581,377	18.24	6,430	47,574,214	26.14
Companies/Institutions	277	150,522,633	81.76	298	134,420,868	73.86

DEBENTURES

DEBENTURES 2013-2018 (matured on 22 February 2018)

Listed on CSE in February 2013

(SEYB D178, D179, D180)	Type A annual interest (15.50% p.a.)		Type B semi-annual Interest (15.00% p.a.)		Type C monthly interest (14.50% p.a.)	
	2018	2017	2018	2017	2018	2017
	Number of debentures issued	10,909,100		8,430,200		660,700
Debenture prices						
Highest (LKR)	Not traded in 2017 and 2018		Not traded in 2017 and 2018		Not traded in 2017 and 2018	
Lowest (LKR)	Not traded in 2017 and 2018		Not traded in 2017 and 2018		Not traded in 2017 and 2018	
Last traded (LKR)	Not traded in 2017 and 2018		Not traded in 2017 and 2018		Not traded in 2017 and 2018	

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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Number of debentures issued	4,622,800		300		18,665,200		25,055,200		3,005,200
Debenture prices										
Highest (LKR)	Not traded in 2017 and 2018		Not traded in 2017 and 2018		Not traded in 2017 and 2018		Not traded in 2017 and 2018		Not traded in 2017 and 2018	
Lowest (LKR)	Not traded in 2017 and 2018		Not traded in 2017 and 2018		Not traded in 2017 and 2018		Not traded in 2017 and 2018		Not traded in 2017 and 2018	
Last traded (LKR)	Not traded in 2017 and 2018		Not traded in 2017 and 2018		Not traded in 2017 and 2018		Not traded in 2017 and 2018		Not traded in 2017 and 2018	

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	
	2018	2017	2018	2017	2018	2017
	Number of debentures issued	17,103,200		174,000		32,722,800
Debenture prices						
Highest (LKR)	100.00	Not traded	Not traded	101.00	106.20	Not traded
Lowest (LKR)	100.00	in 2017	in 2018	101.00	90.00	in 2017
Last traded (LKR)	100.00			101.00	90.00	

DEBENTURES 2018

Listed on CSE in April 2018

(SEYB D432, D433, D434)	Type A 5-year debentures (12.85% p.a.) semi-annual		Type B 7-year debentures (13.20% p.a.) semi-annual		Type C 10-year debentures (13.50% p.a.) semi-annual	
	2018	2017	2018	2017	2018	2017
	Number of debentures issued	39,100,000		7,150,000		16,090,000
Debenture prices						
Highest (LKR)	100.06	Not applicable	Not traded	Not applicable	Not traded	Not applicable
Lowest (LKR)	100.06		in 2018		in 2018	
Last traded (LKR)	100.06					

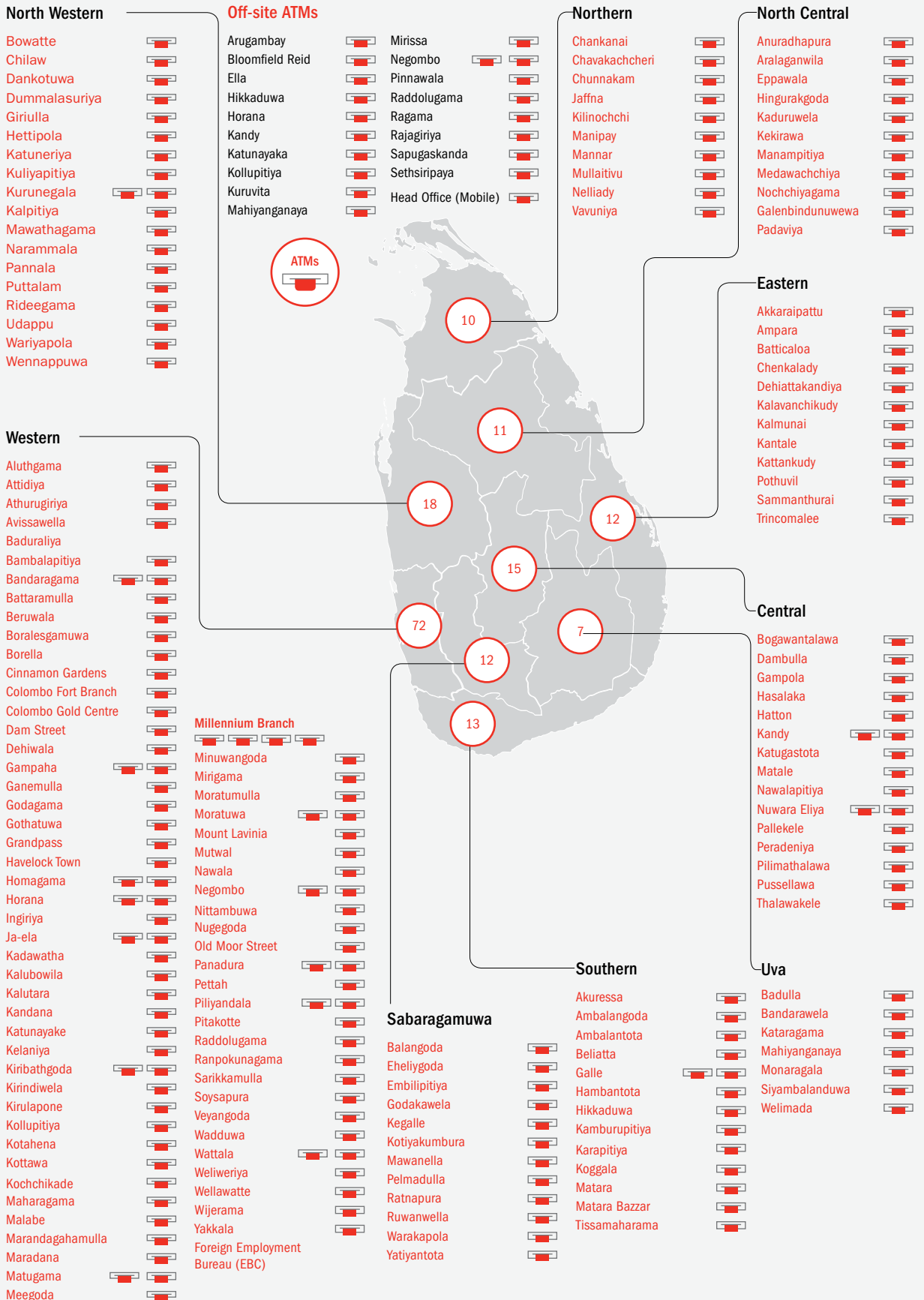
SEYLAN BANK PLC – DEBENTURES

	2018	2017
Debt (debentures)/equity ratio (times)	0.47	0.37
Debt (debentures plus long-term debt)/equity ratio (times)	0.85	0.70
Interest cover (times)	3.64	5.69
Quick asset ratio (times)	0.74	0.77
2013-2018 Issue (Debenture matured and redeemed on 22 February 2018)		
Interest yield as at date of last trade		
Annual interest - 15.50% p.a.	*	*
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.	*	*
Semi-annual interest - 15.00% p.a.	*	*
Monthly interest - 14.50% p.a.	*	*
Interest Rate of Comparable Government Security (Debenture matured and redeemed on 22 February 2018)		
		8.04%
2014 Issue		
Interest yield as at date of last trade		
4 year fixed semi-annual - 8.00% p.a. (Debenture matured and redeemed on 16 December 2018)	*	*
5 year fixed semi-annual - 8.35% p.a.	*	*
5 year fixed annual - 8.60% p.a.	*	*
6 year fixed semi-annual - 8.60% p.a.	*	*
6 year fixed annual - 8.75% p.a.	*	*
Yield to maturity of trade done on		
4 year fixed semi-annual - 8.00% p.a. (Debenture matured and redeemed on 16 December 2018)	*	*
5 year fixed semi-annual - 8.35% p.a.	*	*
5 year fixed annual - 8.60% p.a.	*	*
6 year fixed semi-annual - 8.60% p.a.	*	*
6 year fixed annual - 8.75% p.a.	*	*
Interest rate of comparable Government Security		
- 4 years (Debenture matured and redeemed on 16 December 2018)		8.96%
- 5 years	10.42%	9.31%
- 6 years	11.19%	9.66%
2016 Issue		
Interest yield as at date of last trade		
5 year fixed semi-annual - 13.00% p.a. (17 October 2018)/*	13.42%	*
5 year floating semi-annual - six months Treasury Bill rate + 1.5%	*	*
7 year fixed semi-annual - 13.75% p.a. (24 December 2018)/(09 March 2017)	15.28%	14.22%
Yield to maturity of trade done on		
5 year fixed semi-annual - 13.00% p.a. (17 October 2018)/*	12.98%	*
5 year floating semi-annual - six months Treasury Bill rate + 1.5%	*	*
7 year fixed semi-annual - 13.75% p.a. (24 December 2018)/(09 March 2017)	16.98%	13.74%
Interest rate of comparable Government Security		
- 5 years	11.36%	9.76%
- 7 years	11.61%	10.10%
2018 Issue		
Interest yield as at date of last trade		
5 year fixed semi-annual - 12.85% p.a. (09 April 2018)	13.25%	
7 year fixed semi-annual - 13.20% p.a.	*	
10 year fixed semi-annual - 13.50% p.a.	*	
Yield to maturity of trade done on		
5 year fixed semi-annual - 12.85% p.a. (09 April 2018)	12.83%	
7 year fixed semi-annual - 13.20% p.a.	*	
10 year fixed semi-annual - 13.50% p.a.	*	
Interest rate of comparable Government Security		
- 5 years	11.72%	
- 7 years	11.81%	
- 10 years	11.92%	

* No trading during the period.

BRANCH AND ATM NETWORK

Province wise distribution



GEOGRAPHICAL ANALYSIS

DEPOSITS, LOANS AND ADVANCES

AS AT 31 DECEMBER 2018

Province	Number of Banking Centres	Deposits LKR Mn.	%	Loans and Advances LKR Mn.	%
Western	73	262,377	73.4	256,590	76.3
Southern	13	15,872	4.4	19,745	5.9
Uva	7	4,637	1.3	2,808	0.8
North-Central	11	7,070	2.0	4,819	1.4
North-Western	18	16,025	4.5	11,987	3.6
Eastern	12	9,381	2.6	8,877	2.6
Northern	10	8,969	2.5	5,881	1.7
Sabaragamuwa	11	14,395	4.0	11,208	3.3
Central	15	18,834	5.3	14,860	4.4
	170	357,560	100.0	336,775	100.0
Total expected credit loss allowance for loans and advances		-		(9,893)	
Total	170	357,560		326,882*	

* Loans and advances net of expected credit loss allowance.

COMMITMENTS AND CONTINGENCIES

AS AT 31 DECEMBER 2018

Province	Number 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	73	10,611	524	24,449	9,021	2,432	1,265	48,302
Southern	13	34	-	1,544	45	68	-	1,691
Uva	7	-	-	249	6	-	-	255
North-Central	11	50	-	927	4	-	-	981
North-Western	18	200	-	855	258	64	-	1,377
Eastern	12	-	-	564	6	1	-	571
Northern	10	-	-	589	8	-	-	597
Sabaragamuwa	11	76	-	588	10	9	-	683
Central	15	246	-	913	453	79	-	1,691
Contingencies	170	11,217	524	30,678	9,811	2,653	1,265	56,148
Commitments -								
Undrawn Credit Commitments and Capital Commitments								73,545
Total	170	11,217	524	30,678	9,811	2,653	1,265	129,693

GRI CONTENT INDEX

GRI standard/disclosure	Page No.	Report commentary title	
GRI 102: General Disclosures 2016			
Organisational profile			
102-1	Name of the organisation	4	Profiling the Bank
102-2	Activities, brands, products and services	5	Brands, products, services and operating structure
102-3	Location of headquarters	292	Corporate information
102-4	Location of operations	4-5	Presence and scale of operation
102-5	Ownership and legal form	292	Legal Form
102-6	Markets served	4, 45-46	Presence and scale of operation, product portfolio
102-7	Scale of the organisation	4, 6, 7	Presence and scale of operation, financial highlights, operational highlights
102-8	Information on employees and other workers	52-53	Staff strength 2018
102-9	Supply chain	14-15, 63-67	Value creation model, trusted partners
102-10	Significant changes to the organisation and its supply chain	4-5	Presence and scale of operation
102-11	Precautionary Principle or approach	75	Environmental, social and governance performance
102-12	External initiatives	75	Sustainable partnerships
102-13	Membership of associations	63	Loyal relationships
Strategy			
102-14	Statement from senior decision-maker	8-9	Letter from the Chairman
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	14-16	Value creation model and how we create value
Governance			
102-18	Governance structure	91-93	Corporate governance framework
Stakeholder engagement			
102-40	List of stakeholder groups	19-21	Stakeholder engagement
102-41	Collective bargaining agreements	61	Non-discrimination, freedom of association and collective bargaining
102-42	Identifying and selecting stakeholders	19-21	Stakeholder engagement
102-43	Approach to stakeholder engagement	19-21	Stakeholder engagement
102-44	Key topics and concerns raised	19-21	Stakeholder engagement
Reporting practice			
102-45	Entities included in the consolidated financial statements	5	Limitations and boundary
102-46	Defining report content and topic boundaries	5, 22	Limitations and boundary, materiality
102-47	List of material topics	22	Materiality
102-48	Restatements of information	5	Comparative information
102-49	Changes in reporting	5	Comparative information
102-50	Reporting period	5	Content of the report
102-51	Date of most recent report	5	Comparative information
102-52	Reporting cycle	5	Content of the report
102-53	Contact point for questions regarding the report	5	Contact person for editorial information
102-54	Claims of reporting in accordance with the GRI Standards	5	Sustainability reporting framework
102-55	GRI content index	279-281	GRI Content index
102-56	External assurance	5, 38-39	Independent assurance, Sustainability assurance report
GRI 200: Economic			
GRI 201: Economic performance 2016			
201-1	Direct economic value generated and distributed	26-37	Financial value creation
201-3	Defined benefit plan obligations and other retirement plans	42	Economic value added statement
201-3	Defined benefit plan obligations and other retirement plans	242-245	Note number 43
201-4	Financial assistance received from Government	73-74	Finance arm on needy sectors through refinance and subsidy schemes

GRI standard/disclosure	Page No.	Report commentary title
GRI 202: Market presence 2016	78-79	Stakeholder groups and performance indicators
202-1 Ratios of standard entry level wage by gender compared to local minimum wage	78	Stakeholder groups and performance indicators
202-2 Proportion of senior management hired from the local community	78	Stakeholder groups and performance indicators
GRI 203: Indirect economic impacts 2016	68-74	Responsible corporate citizenship
203-1 Infrastructure investments and services supported	71	Financial literacy
203-2 Significant indirect economic impacts	73-74	Finance arm on needy sectors through refinance and subsidy schemes
GRI 204: Procurement practices 2016	66-67	Ethical practices
204-1 Proportion of spending on local suppliers	67	Promote locally-based suppliers, cost of services obtained locally in the vicinity of branches
GRI 205: Anti-corruption 2016	16, 72	Anti-corruption, Being a responsible corporate citizen
205-1 Operations assessed for risks related to corruption	72	Being a responsible corporate citizen
205-2 Communication and training about anti-corruption policies and procedures	73	Training for being compliant
GRI 206: Anti-competitive behaviour 2016	72	Being a responsible corporate citizen
206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	72	Being a responsible corporate citizen
GRI 300: Environmental	74-77, 79	Environmental stewardship, performance indicators
GRI 302: Energy 2016	76	Sparing use of energy
302-1 Energy consumption within the organisation	76, 79	Sparing use of energy, stakeholder groups and performance indicators
302-4 Reduction of energy consumption	79	Total energy consumption
GRI 303: Water 2016	76	Water management
303-1 Water withdrawal by source	76	Water management
GRI 306: Effluents and waste 2016	76	Waste disposal and e-waste management
306-2 Waste by type and disposal method	76	Waste disposal and e-waste management
GRI 307: Environmental compliance 2016	72	Being a responsible corporate citizen
307-1 Non-compliance with environmental laws and regulations	72	Being a responsible corporate citizen
GRI 400: Social	51-62	Motivated employees
GRI 401: Employment 2016	52-54	Staff strength
401-1 New employee hires and employee turnover	53-54	Recruitments, employee turnover
401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	54-55	Employee benefits
401-3 Parental leave	55	Employees who obtained parental leave and returned to work
GRI 402: Labour/Management relations 2016	61-62	Human rights
402-1 Minimum notice periods regarding operational changes	62	Minimum notice period
GRI 403: Occupational health and safety 2016	61-62	Health and safety
403-1 Workers representation in formal joint management-worker health and safety committees	61-62	Occupational health and safety, Initiatives to improve staff well-being
403-4 Health and safety topics covered in formal agreements with trade unions	61	Non-discrimination, freedom of association and collective bargaining
GRI 404: Training and education 2016	58-60	Number and duration of training programmes
404-1 Average hours of training per year per employee	60	Average training hours by employee category
404-2 Programmes for upgrading employee skills and transition assistance programmes	58	Training and education

GRI standard/disclosure	Page No.	Report commentary title
GRI 405: Diversity and equal opportunity 2016	56	Employee composition by gender, diversity and inclusion
405-1 Diversity of governance bodies and employees	53, 56-57, 96	Employees analysed by grade and age as at 31 December 2018, workforce by province and gender, Diversity and inclusion, Board gender composition
405-2 Ratio of basic salary and remuneration of women to men	57	Remuneration based on gender
GRI 406: Non-discrimination 2016	61	Non-discrimination, freedom of association and collective bargaining
406-1 Incidents of discrimination and corrective actions taken	61	Non-discrimination freedom of association and collective bargaining
GRI 407: Freedom of association and collective bargaining 2016	61	Non-discrimination freedom of association and collective bargaining
407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	61, 66	Non-discrimination freedom of association and collective bargaining, ethical practices
GRI 408: Child labour 2016	62	Child labour, forced or compulsory labour, indigenous peoples' rights and assessments
408-1 Operations and suppliers at significant risk for incidents of child labour	66	Ethical practices
GRI 409: Forced or compulsory labour 2016	62	Child labour, forced or compulsory labour, indigenous peoples' rights and assessments
409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	66	Ethical practices
GRI 410: Security practices 2016	62	Security training
410-1 Security personnel trained and human rights policies or procedures	62	Security training
GRI 413: Local communities 2016	68-74	Responsible corporate citizenship
413-1 Operations with local community engagement, impact assessments, and development programmes	68, 71	"Seylan <i>Pahasara</i> ", financial literacy
GRI 416: Customer health and safety	47	Customer and product responsibility
416-1 Assessment of the health and safety impacts of product and service categories	47	Customer and product responsibility
416-2 Incidents of non-compliance concerning the health and safety impacts of product and services	49	Customer health and safety
GRI 417: Marketing and labelling 2016	49	Products/service labelling and marketing communication
417-3 Incidents of non-compliance concerning marketing communications	49	Products/service labelling and marketing communication
GRI 418: Customer privacy 2016	49	Customer privacy
418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	49	Customer privacy
GRI 419: Socio-economic compliance 2016	72	Being a responsible corporate citizen
419-1 Non-compliance with laws and regulations in the social and economic area	72	Being a responsible corporate citizen

ALPHABETICAL INDEX

	Page No.		Page No.
Accounting Policies	180	Intangible Assets	236
Auditors' Report on Internal Control	125	Interest Expense	208
Auditors' Report	167	Interest Income	208
Awards Recognition	43	Interest Yield on Debentures/Yield to Maturity of Debentures	276
Balances with Central Bank	218	Investment in Subsidiary	228
Board Audit Committee Report	111	Leasehold Properties	231
Board Credit Committee Report	117	Lease Rental Receivables	222
Board Governance and Compliance Committee Report	120	Loans and Advances	221
Board Human Resources and Remuneration Committee Report	113	Market Prices of Shares	6
Board Integrated Risk Management Committee Report	115	Maturity Analysis	258
Board Marketing and Product Development Committee Report	119	Net Assets Value Per Share	173
Board Nomination Committee Report	114	Notes to the Financial Statements	180
Board of Directors	80	Notice of Annual General Meeting	290
Board Sustainability Committee Report	118	Operating Expenses	211
Capital Adequacy Computation	155	Operational Highlights	7
Capital Commitment	252	Segment Reporting	260
Cases Against the Bank	250	Other Assets	239
Cash and Cash Equivalents	217	Due to Other Borrowers	241
Commitments and Contingencies	249	Other Liabilities	242
Corporate Governance	90	Other Reserves	247
Corporate Information	292	Our Value Creation Story	24
Correspondent Banks	64	Personnel Expenses	211
Cost Income Ratio	269	Price Earnings Ratio	6
Customer Deposits	240	Property, Plant and Equipment	229
Deferred Tax	236	Provision for Gratuity (Defined Benefit Obligations)	242
Derivative Financial Instruments	219	Expected Credit Loss/Impairment Allowance	223
Economic Value Added Statement	42	Related Party Disclosures	254
Directors' Statement on Internal Control	123	Report of the Board of Directors	126
Distribution and Composition of Shareholders	274	Report of the Related Party Transactions Review Committee	121
Dividend Cover	6	Return on Average Assets	269
Dividend Per Share	6	Return on Average Equity	269
Donations	128	Risk Management	137
Earnings Per Share	214	Senior Management Team	86
Economic Value Addition	42	Stated Capital	246
Effective Tax Rate	212	Statement of Cash Flows	178
Events after the Reporting Date	254	Statement of Changes in Equity	174
Financial Calendar	164	Statement of Profit or Loss and Other Comprehensive Income	172
Financial Highlights	6	Statement of Directors' Responsibility for Financial Reporting	165
Financial Assets Measured at FVTPL/HFT	220	Statement of Financial Position	173
Financial Assets Measured at FVOCI/AFS	225	Statutory Liquid Assets Ratio	6
Financial Value Creation	26	Statutory Reserve Fund	247
Form of Proxy	Enclosed	Total Equity	173
General Reserve	247	Twenty Largest Shareholders	272
GRI Content Index	279	US Dollar Financial Statements	270
Income Statement	171	Report of the Board Strategic Plan Committee	122
Income Tax Expense	212		

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.

Actuarial gain/loss

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

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.

Amortised cost of a financial asset or financial liability

The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

B

Basel III

The Basel Committee on Banking Supervision (BCBS) issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

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 interest rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Effective tax rate

Provision for taxation excluding deferred tax 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.

Expected credit loss (ECL)

The weighted average of credit losses with the respective risks of a default occurring as the weights.

Exposure at default (EAD)

The amount that a bank is exposed to at the time of default of its borrower.

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.

Fair value through profit or loss (FVTPL)

A financial asset/liability acquired incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

Fair value through other comprehensive income (FVOCI)

Financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

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.

High quality liquid assets (HQLA)

Assets that are unencumbered, liquid in markets during a time of stress and, ideally, be Central Bank eligible. These include, for example, cash and claims on Central Governments and Central Banks.

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**Lifetime expected credit losses**

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

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.

Liquidity coverage ratio (LCR)

Refers to highly liquid assets held by Banks to meet short-term obligations. The ratio represents a generic stress scenario that aims to anticipate market-wide shocks.

Loss given default (LGD)

The percentage of an exposure that a lender expects to not recover in the event of default.

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.

Net stable funding ratio (NSFR)

Measures the amount of longer term, stable sources of funding employed by a Bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Non-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.

Past due

A financial asset is past due when counterparty has failed to make a payment when that payment was contractually due.

Price-earnings ratio (P/E Ratio)

The current market price of the share is divided by the earnings per share of the Bank.

Probability of default (PD)

The likelihood of a default over a particular time horizon. It provides an estimate of the probability that a borrower will be unable to meet its debt obligations.

Provision cover

Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

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.

Related party transaction (RPT)

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

Repurchase agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

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.

Reverse repurchase agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

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**Tier 1 capital (common equity Tier 1 – CET 1)**

Common Equity Tier 1 (CET 1) is a component of Tier 1 capital that consists mostly of Stated Capital. It is a capital measure that was introduced as a precautionary measure to protect the economy from a financial crisis.

Tier 1 capital (additional Tier 1 capital – AT I)

Additional Tier 1 Capital (AT I) is a component of Tier 1 Capital that comprises securities that are subordinated to most subordinated debt, which have no maturity, and their dividends can be cancelled at any time.

Tier 2 capital

Capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total capital

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.

12-month expected credit loss

The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

සභාපතිතුමාගේ පණිවිඩය

හිතවත් පාර්ශවකරුවන්,

2018 වසර නිසැකයෙන්ම අභියෝගාත්මක වසරක් විය. ගෝලීය ආර්ථික, මූල්‍යමය සහ භූදේශපාලනික සිදුවීම් මෙන්ම දේශීය අභියෝගයන් රැසක් සමස්ථ සාර්ව ආර්ථික ස්ථායීතාවයට අහිතකර බලපෑමක් ඇති කරන ලදී.

අනපේක්ෂිත අභියෝගයන් හමුවේ ප්‍රතිවර්තනය වීම සහ ශක්තිමත් වීම සිදුවූ වසරක් ලෙස සලකා බැලීමේ 2018 කාර්යසාධනය මඟින් පිළිබිඹු කෙරෙන අතර අපගේ පාර්ශවකරුවන්ට වඩා හොඳ අගයක් නිර්මාණය කිරීමට දැන් අපි වඩාත් හොඳින් ස්ථාවරව සිටින්නෙමු.

දීර්ඝ කාලයක් තිස්සේ පැවැති අතිරේක පාරිභෝගිකය පිළිබඳ ගැටලුව විසඳා ගන්නා අතරම රුපියල් බිලියන 3.2 ක බදු පසු ලාභයක් උපයා ගැනීමට ද 2018 වසරේ දී සලකා බැලූව සමත් විය.

අපගේ උපාය මාර්ගික සැලසුම් සැලකිය යුතු ලෙස ක්‍රියාවට නැංවීම, අපගේ පුද්ගල බැංකු සහ ආයතනික බැංකු සේවා අංශයන් වැඩි දියුණු කිරීම, අපගේ ශාඛා ජාලයේ මෙහෙයුම් විධිමත් කිරීම සහ අපගේ ගනුදෙනු වඩාත් කාර්යක්ෂම කරනු වස් ඩිජිටල්කරණය මඟින් තොරතුරු තාක්ෂණ පහසුකම් ශක්තිමත් කිරීම සම්බන්ධව සැලකිය යුතු දියුණුවක් අපි ලැබුවෙමු. පාරිභෝගික සේවාවන් සහ මෙහෙයුම් වේගවත් කිරීම මඟින් පාරිභෝගිකයන්ගේ පහසුව වර්ධනය කෙරෙනු ඇත. දියුණු තාක්ෂණය පදනම් කරගත් ක්‍රියාවලියන් සහ වෙළඳපොළෙහි අපගේ භූගෝලීය පැතිරීම ක්ෂේත්‍රයේ ප්‍රමුඛ බැංකුවක් බවට අපව පත්කරනු ඇත.

අපගේ කාර්ය සාධනය

ශ්‍රී ලංකා ගිණුම්කරණ ප්‍රමිති SLFRS 9 භාවිතයට ගැනීම සහ වර්තමාන සේවකයන් බහුතරයකට අදාළ අතිරේක පාරිභෝගික පිළිබඳ දිගු කලක් තිස්සේ පැවති ගැටළු නිරාකරණය කළින් ඵල්ලවූ අභියෝග නිසා මෙම වසරේ අපගේ මූල්‍ය ප්‍රතිඵලවලට බලපෑමක් ඇතිවිය. එසේ වුවද එකී අයිතමයන් සඳහා මෙම වසරේදී ගිණුම් තැබීම තුළින් අනාගතය සඳහා බැංකුවට ස්ථාවර පදනමක් ලැබී ඇත.

ගෝලීය ආර්ථික වර්ධනය සාපේක්ෂව ශක්තිමත්ව පවතින නමුත් දියුණු ආර්ථිකයන්ගේ පසු බැමක් ලබන වසරේදී අපේක්ෂා කෙරේ. ලෝක ආර්ථික, මූල්‍ය සහ භූදේශපාලනික තත්ත්වයන්ගෙන් ඇතිවූ අභියෝගයන් ශ්‍රී ලංකා ආර්ථිකයේ බාහිර අංශය කෙරෙහි අහිතකර ලෙස බලපෑවේය.

මෙමඟින් අපගේ පාරිභෝගිකයින්ට අභියෝගයන් ඵල්ල වූ අතර, ඒවා ඉන්පසු අපගේ මෙහෙයුම් කෙරෙහිද බලපෑමක් ඇති කළේය. අපගේ වගකීම් සහිත

කළමනාකරණ ප්‍රවේශය තුළින් සුළු හා මධ්‍ය පරිමාණ ව්‍යවසාය ක්ෂේත්‍රයේ අපගේ බොහෝ පාරිභෝගිකයන්ට වෙළඳපොළේ අස්ථාවරතාවය දරා ගැනීම සඳහා සහාය වීමට අප සමත්වීමු.

අපගේ පියසටහන්

අපි බැංකුවක් ලෙස, අපගේ ව්‍යාප්තිය භූගෝලීය වශයෙන් අඛණ්ඩව පුළුල් කරන්නෙමු. පසුගිය වසරේ ආරම්භ කරන ලද සබඳතා නිලධාරී සංකල්පය වර්ධනය කිරීම සහ බැංකුකරණ මධ්‍යස්ථාන 170 තුළින් අපගේ පාරිභෝගික අත්දැකීම වැඩිදියුණු කළෙමු. තවද රට පුරා ආර්ථික ක්‍රියාකාරීත්වය ව්‍යාප්ත කිරීමේ රජයේ ප්‍රවේශයෙන් ඵල නෙලා ගැනීම සඳහා අප මැනවින් ස්ථානගතව සිටීමු.

වගකීම් සහිත මූල්‍යකරණයක් සඳහා බැංකුවේ ඇති කැපවීම අපගේ පාරිසරික සහ සාමාජීය කළමනාකරණ ප්‍රතිපත්තිය මඟින් දක්වා ඇත. බැංකුවේ පාරිසරික සහ සාමාජීය අවදානම් කළමනාකරණය සඳහා රාමුවක් සකසන පාරිසරික සහ සාමාජීය කළමනාකරණ ක්‍රමවේදය (ESMS) එයට සහාය ලබාදෙයි.

නියාමනය හා අධීක්ෂණය

අපගේ ණය භානිකරණ ප්‍රතිපාදන ආචරණය, විවෘත ණය නිරාවරණය සහ අනෙකුත් අනුපාත වැඩිදියුණු කරගනිමින් බැංකුව විසින් Basel III සහ SLFRS 9 සාර්ථකව ක්‍රියාවට නංවන ලදී. මනා මූල්‍ය මූලධර්මයන් අනුගමනය කිරීම නිසා බැංකුවට ඵලදායී ලෙස එම රෙගුලාසි පිළිපැදීමට අවකාශ සැලසුණි.

කෙසේ වුවද මෙම නියාමන වගකීම් ද්විත්වය නිසා ඉදිරි වසරවලදී අභියෝග වලට මුහුණ දීමට සිදුවන බව අපි දනිමු. අපගේ වගකීම් ඉටුකිරීමේදී, අතිරේක ආදායම් උත්පාදනය කිරීම සහ පනවා ඇති සීමාවන්ට අනුගත වීම අතර සමබරතාවය රැකගනිමින්, අප වගකීම් ඉටුකිරීමේදී යහපත් ප්‍රමිතියකින් යුත් ප්‍රතිඵල ලබාදීම තවදුරටත් අසීරු වනු ඇත.

අපගේ අනාගත උපායමාර්ගය

ඉදිරි වර්ෂ සඳහා අපගේ ප්‍රවේශය උපායමාර්ගික සැලැස්ම මඟින් සවිමත් කරයි. අප විසින් බැංකුවේ පදනම සවිමත් කරන ලද අතර, වගකීම් සහගත ලෙස අපගේ මෙහෙයුම් වර්ධනය කිරීමට සහ තිරසාර කිරීමට අපි මැනවින් ස්ථානගතව සිටින්නෙමු. අපගේ බලාපොරොත්තුව වන්නේ අපගේ ව්‍යාපාරය වර්ධනය කිරීමේ ක්‍රියාවලිය විවිධාංගීකරණයට ලක්කිරීම සහ අපගේ තිරණයන් ගැනීමේදී විචක්ෂණශීලීව කටයුතු කිරීමයි.

උපායමාර්ගික සැලැස්මෙහි මූලධර්මයන් කෙරෙහි අපගේ අවධානය යොමු කරමින්, අපි නවය බැංකු සේවාවන් ඔස්සේ වඩාත්

පිරිවැය ඵලදායී ලෙස අරමුදල් සම්පාදනය කරන අතරම අභියෝගාත්මක පරිසරයක මූල්‍ය දුෂ්කරතාවලට මුහුණ පා ඇති සුළු හා මධ්‍ය පරිමාණ ව්‍යවසායයන්ට විසඳුම් ඉදිරිපත් කරන්නෙමු.

කතඥතාව

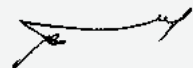
2018 වසරේදී ස්ථිරසාර ලෙස අපගේ අභිලාෂයන් කරා ගමන් කළ අපගේ ප්‍රධාන විධායක නිලධාරී කපිල ආරියරත්න මහතාගේ සහ බැංකුවේ කළමනාකාරීත්වය හා කාර්ය මණ්ඩලයේ කැපවීම මම අගය කරමි. බැංකුවේ සාර්ථකත්වය සම්බන්ධයෙන් ඔවුන්ගේ කැපවීම පිළිබඳව මම ඔවුන් සියලු දෙනාටම මගේ සුබපැතුම් පිරිනමන අතර අධ්‍යක්ෂ මණ්ඩලයේ සියලුම සාමාජිකයන්ගේ කැපවීම හා දායකත්වය උදෙසා ඔවුන් සියලු දෙනාටම ස්තූතිය පිරිනැමීමටද මම මෙය අවස්ථාවක් කරගනිමි.

බැංකුවේ අධ්‍යක්ෂ මණ්ඩලයේ වසර 9කට ආසන්න කාලයක් සපුරා, මෙම වසරේ ඉවත් වූ බැංකුවේ උපසහාපති ඉෂාර නානායක්කාර මහතාටද අධ්‍යක්ෂ මණ්ඩලයේ වසර 9ක් සපුරා විශ්‍රාමලත් සමන්ත රණතුංග මහතාටද, අධ්‍යක්ෂ මණ්ඩලය වෙනුවෙන් මගේ ස්තූතිය පිරිනමමි. බැංකුවේ ප්‍රගතියට සහ එහි තිරසාරතාවයට ඔවුන්ගේ දායකත්වය සහ මඟපෙන්වීම තුළින් ඔවුන්ගේ පූර්ණ කැපවීම කැපී පෙනේ. ඔවුන් දෙදෙනාටම අනාගතය සඳහා සුභාශිෂ්ණ එක් කරමි. විධායක නොවන අධ්‍යක්ෂවරයෙකු ලෙස ක්‍රිෂාන් තිලකරත්න මහතාද, ස්වාධීන අධ්‍යක්ෂවරයෙකු ලෙස රවින්ද්‍ර අබේසූරිය මහතා සහ උපසහාපති කපිල ජයවර්ධන මහතාට විකල්ප අධ්‍යක්ෂවරයෙකු ලෙස රවින්ද්‍ර තිසේරා මහතාටද බැංකුව වෙත සාදරයෙන් පිළිගනිමි. ඔවුන්ගේ පුළුල් අත්දැකීම් මඟින් බැංකුවට සුවිසල් වටිනාකමක් එක් කරනු ඇතැයි මම විශ්වාස කරමි.

අපගේ අගනා පාරිභෝගිකයන්, කොටස් හිමියන් සහ අනෙකුත් පාර්ශවකරුවන්ට ඔවුන්ගේ අනුග්‍රහය සහ සහයෝගය වෙනුවෙන් ස්තූතිවන්ත වෙමි. බැංකුව සමඟ පවතින ඔබගේ සබඳතාවය අපට නිරතුරුව ශක්තිය සහ විශ්වාසය ලබාදෙයි.

සෑම අවස්ථාවකදීම අපට මඟපෙන්වීම හා සහාය ලබාදෙන නියාමකයන්ටද මගේ ස්තූතිය පිරිනමමි.

අවසාන වශයෙන් මඛ සියලුදෙනාට මාගේ අවංක ස්තූතිය සහ සුභාශිෂ්ණ පිරිනමමි.



ඩබ්ලිව් එම් ආර් එස් ඩයස්
සභාපති

2019 පෙබරවාරි 18

தலைவரின் கடிதம்

அன்பான பங்காளர்களே,

2018 ஆம் ஆண்டானது சந்தேகத்திற்கு இடமின்றியதொரு சவால்மிக்க வருடமாகும். உலகளாவிய பொருளாதார, நிதி மற்றும் புவியார் அரசியல் முன்னேற்றங்கள் மற்றும் பல உள்நாட்டுச் சவால்கள் ஒட்டுமொத்த பேரினப் பொருளாதார நிலைப்பேற்றில் தாக்கம் செலுத்தியது.

2018 ஆம் ஆண்டிற்கான செலான் வங்கியின் செயலாற்றுகையானது எதிர்வு கூற முடியாத சவால்களின் பின்னணிக்கெதிராக மாற்றங்களை ஏற்படுத்தும் மற்றும் வலுப்படுத்தும் ஆண்டொன்றினைப் பிரதிபலித்தது. எமது பங்காளர்களுக்கான மேலதிக பெறுமதியினை வழங்குமுகமாக நாம் நன்கு ஸ்தாபிக்கப்பட்டுள்ளோம்.

மேலதிக பணிக்கொடை தொடர்பாக நீண்டகாலம் நிலவி வரும் சிக்கலொன்றைத் தீர்த்துவரும் அதேவேளை செலான் வங்கியானது 2018 ஆம் ஆண்டில் ரூபா. 3.2 பில்லியன் பெறுமதியான வரிக்குப்பின்னரான இலாபத்தைப் பெற்றுள்ளது.

எமது செயற்பாடுகளில் அதிகரித்த டிஜிட்டல் மயமாக்கலைப் பூர்த்தி செய்வதற்காக எமது முலோபாயத் திட்டத்தை நடைமுறைப்படுத்தல், எமது சிற்றளவு மற்றும் கூட்டாண்மை வியாபாரத் துறைகளை விரிவுபடுத்தல், எமது கிளை வலையமைப்பினைச் சீராக்கல் மற்றும் தகவல் தொழில்நுட்பத்தளங்களை வலுப்படுத்தல் ஆகியவற்றில் நாம் கணிசமான முன்னேற்றங்களை அடைந்துள்ளோம். செயற்பாடுகளிலான அதிகரித்த வேகம் மற்றும் வாடிக்கையாளர் சேவைகள் எமது வாடிக்கையாளர் சௌகரியத்தை பன்மடங்கு அதிகப் படுத்தியுள்ளது என்பதில் எவ்வித ஐயமுமில்லை. சந்தையில் எமது புவியியல் ரீதியான நிலைநாட்டமானது தொழில் நுட்பத்தினால் உந்தப்பட்ட செய்முறைகளின் முன்னேற்றங்களுடன் இணைந்து எமது வங்கியை, இத்துறையில் ஒரு முக்கிய பங்கேற்பாளர் என்ற நிலைக்குக் கொண்டுவரும் என நாம் நம்புகின்றோம்.

எமது செயலாற்றுகை

இலங்கைக் கணக்கீட்டு நியமத்தில் (SLFRS 9) ஏற்பட்ட மாற்றங்கள் மற்றும் தற்போதைய ஊழியர்களில் பெரும்பான்மையானோருக்கான மேலதிக பணிக்கொடை தொடர்பாக நிலவிய நீண்டகால பிரச்சினையொன்றை முடிவுக்குக் கொண்டு வந்தமை எமது இவ்வாண்டிற்குரிய நிதிப் பெறுபேற்றில் தாக்கம் செலுத்தியது. எவ்வாறாயினும், இவ்வாண்டிற்குரிய கணக்கீடானது வங்கியை எதிர்காலத்தில் வலுவான நிலைக்குக் கொண்டு வரும்.

உலகளாவிய பொருளாதார வளர்ச்சியானது நியாயமாக வலுவாகவிருந்த போதிலும் எதிர்வரும் ஆண்டில் மேம்பட்ட பொருளாதாரங்களிலிருந்தான உலக வெளியீடானது குறைவாகவிருக்கும் என எதிர்பார்க்கப்படுகின்றது. உலகளாவிய பொருளாதாரம், நிதி மற்றும் புவியியல் ரீதியான அபிவிருத்திகளிலிருந்து வரும் சவால்கள் இலங்கைப் பொருளாதாரத்தின் வெளிவாரித் துறையினை எதிர்மறையாகப் பாதித்தமையை இது காட்டுகின்றது.

எமது பொறுப்பு வாய்ந்த முகாமைத்துவ அணுகுமுறையினூடாக சிறிய நடுத்தர முயற்சியாண்மைத் துறையிலுள்ள பல வாடிக்கையாளர்கள் சந்தையில் நிலவும் ஸ்திரமற்ற நிலைக்கு முகங்கொடுப்பதற்கு எம்மால் உதவ முடிந்தது.

எமது செயற்களம்

ஒரு வங்கியென்ற வகையில் நாம், தொடர்ந்தும் எமது அடிச்சுவட்டினைப் புவியியல் ரீதியாக விஸ்தரிக்கவுள்ளோம். 170 வங்கியியல் மத்திய நிலையங்கள் முலமாக, கடந்த வருடம் ஆரம்பிக்கப்பட்ட எமது உறவுமுறை அலுவலர் எண்ணக் கருவினை அபிவிருத்தி செய்வதனூடாக எமது வாடிக்கையாளர் அனுபவத்தினை நாம் மேம்படுத்தியுள்ளோம். நாடளாவிய ரீதியில், பொருளாதார நடவடிக்கைகளை வியாபிப்பதற்கான அரசாங்க அணுகு முறையின் முலமாக அணுகலங்களைப் பெற ஆயத்தமாகவுள்ளோம்.

எமது சுற்றாடல் மற்றும் சமூக முகாமைத்துவக் கொள்கையானது பொறுப்பு வாய்ந்த நிதியிடலில் வங்கி கொண்டுள்ள அர்ப்பணிப்பினைத் தெளிவாக எடுத்துக் காட்டுகின்றது. அது வங்கியில் சுற்றாடல் மற்றும் சமூகரீதியான ஏற்படக் கூடிய இடர்களைக் முகாமை செய்வதற்கான கட்டமைப்பொன்றை ஏற்படுத்தும் சுற்றாடல் மற்றும் சமூக முகாமைத்துவ முறைமை (ESMS) இக்கொள்கையின் அமுலாக்கத்திற்கு உதவியாக இருக்கின்றது.

ஒழுங்குபடுத்தல் மற்றும் மேற்பார்வை

வங்கியானது எமது நட்ட ஒதுக்கீட்டு காப்பு, திறந்த கடன் வெளிப்பாடு மற்றும் ஏனைய விகிதங்களை மேம்படுத்தும் அதேவேளை Basel III மற்றும் இலங்கைக் கணக்கீட்டு நியமம் SLFRS 9 ஆகியவற்றை வெற்றிகரமாக நடைமுறைப்படுத்தியுள்ளது. சிறந்த நிதி அடிப்படைகள் அவ்வொழுங்குவிதிகளை வினைத்திறமாக முகங்கொடுப்பதற்கு வங்கிக்கு உதவியது.

எவ்வாறாயினும், இவ்விரண்டு ஒழுங்குவிதிக் கட்டப்படுகின்ற இவ்வாண்டின் எதிர்வரும் காலத்திலும் எழக்கூடிய சவால்களுக்கு முகங்கொடுக்க உதவும். வகுக்கப்பட்டுள்ள எல்லைகளையும் சிறந்த தரத்திலான பெறுபேறுகளையும் உறுதிப்படுத்தும் அதேவேளை, மேலதிக வியாபாரத்தில் சமநிலையை உருவாக்குதலானது எமது பொறுப்புக்களை நடைமுறைப்படுத்துவதில் தற்போது மிகவும் வேண்டப்படுவதாகவுள்ளது.

எமது எதிர்கால முலோபாயம்

முலோபாயத் திட்டமிடலானது மலர்ந்துள்ள இவ்வாண்டின் அடித்தளமாகவுள்ளது. எமது வங்கியின் அடித்தளத்தை நாம் உறுதிப்படுத்தியுள்ளதுடன் பொறுப்பு வாய்ந்த முறையில் எமது செயற்பாடுகளை வளரச் செய்யவும் நிலைபேறாக்கவும் அதனை நாம் சரியாக அமைத்துள்ளோம். எமது வியாபாரத்தை வளர்க்கும் செய்முறையினைத் தெரிவுரீதியாகப் பல்வகைப்படுத்துவதும் தொடர்ந்தும் எமது தீர்மானங்களை புத்திசாதுரீயமாக மேற்கொள்வதுமே எமது நோக்கமாகும்.

சவால்மிக்க சூழலில் நிதிப்பிரச்சினைகளுக்கு முகங்கொடுக்கும் சிறிய நடுத்தர முயற்சியாளர்களுக்கு தீர்வுகளை வழங்கும் அதேவேளை, எமது புத்தாக்கமிக்க

உற்பத்தி பொருட்களினூடாக நாம் சிக்கனமான நிதிநீட்டல் முறையை மேற்கொள்வதால் முலோபாயத் திட்டமிடலின் அடிப்படைகளில் நாம் கவனம் செலுத்துகின்றோம்.

பாராட்டுதல்

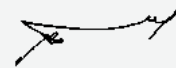
2018 ஆம் ஆண்டில் எமது இலக்குகளை உறுதியாகப் பின்பற்றிய எமது பிரதான நிறைவேற்று அதிகாரி திரு. கபில ஆரியர்தன், வங்கியின் முகாமைத்துவம் மற்றும் சகல வங்கி ஊழியர்களின் அர்ப்பணிப்பினை நான் பாராட்டுகின்றேன். வங்கியின் வெற்றிகரமான செயற்பாடுகளிலாக அவர்களது அர்ப்பணிப்பிற்கு நான் வாழ்த்துக்கள் தெரிவிப்பதுடன், பணிப்பாளர் சபையின் சகல உறுப்பினர்களினதும் அர்ப்பணிப்பு மற்றும் பங்களிப்பிற்கு நன்றி தெரிவிப்பதற்கு நான் இதனை ஒரு சந்தர்ப்பமாகப் பயன்படுத்திக்கொள்கின்றேன்.

வங்கியின் பணிப்பாளர் சபையில் 9 வருடகாலமாகப் பணியாற்றி இராஜினாமா செய்த வங்கியின் பிரதித் தலைவராகிய திரு. இஷார நாயக்கார மற்றும் பணிப்பாளர் சபையில் 9 வருடகாலமாகப் பணியாற்றி ஓய்வுபெற்ற திரு. சமந்த ரணதுங்க ஆகியோருக்கு நான் பணிப்பாளர் சபை சார்பாக நன்றி தெரிவித்துக்கொள்கின்றேன். வங்கியின் முன்னேற்றம் மீதான அவர்களது பங்களிப்பு மற்றும் அதன் நிலைப்பேற்றிற்கான அவர்களது அயராது அர்ப்பணிப்பு ஆகியவை சிறப்பு மிக்கவையாகும். அவர்களிருவரினதும் சிறந்த எதிர்காலத்திற்காக நான் வாழ்த்துக்கள் தெரிவிக்கின்றேன். நிறைவேற்ற அதிகார மற்ற பணிப்பாளர் திரு. கிறிஷான் திலகர்தன், ஒரு சுயாதீன பணிப்பாளர் என்ற வகையில் திரு. ரவீந்திர அபேசுரிய மற்றும் பிரதித் தலைவர் திரு. கபில ஜயவர்தனவிற்கான ஒரு மாற்றுப் பணிப்பாளர் திரு. ரவீந்திர திலேரா ஆகியோரை நாம் அன்புடன் வரவேற்கின்றோம். அவர்களது பரந்த அனுபவமானது வங்கிக்கு அளப்பரிய பெறுமதியினை வழங்குமென நான் நம்புகின்றேன்.

எமது சகல பெறுமதியிடுக்க வாடிக்கையாளர்கள், பங்குதாரர்கள் மற்றும் எம்முடன் தொடர்பு வைத்திருக்கும் அனைவருக்கும் அவர்களது அனுசரணைக்கும் உதவிக்கும் நான் நன்றிகளைத் தெரிவித்துக் கொள்கின்றேன். வங்கியிடமான உங்களுக்கு தொடர்பானது எமது செயற்பாடுகளுக்கான உறுதி மற்றும் நம்பிக்கையின் முலாதாரமாகவுள்ளது.

அத்துடன் எல்லா நேரங்களிலும் எமக்கு வழிகாட்டுதலும் உதவியும் வழங்கும் ஒழுங்குபடுத்துதற்குக்கும் நான் நன்றிகளைத் தெரிவித்துக் கொள்கின்றேன்.

எனது விசுவாசமிக்க நன்றிகளும் வாழ்த்துக்களும் உங்கள் அனைவருக்கும் உரித்தாகட்டும்.



டபீன்பு எம் ஆர் எஸ் டயஸ்
தலைவர்
18 பெப்ரவரி 2019

CIRCULAR TO SHAREHOLDERS



The bank with a heart

(Company Registration No. PQ9)

Registered Office: Seylan Towers, No. 90,
Galle Road, Colombo 3.

Dear Shareholder/s

First and final dividend for the year ended 31 December 2018 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 a first and final dividend of Rupees Two and Cents Fifty (LKR 2.50) on each Ordinary (voting) share and Ordinary (non-voting) share is recommended by the Board for the financial year ended 31 December 2018. 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, 28 March 2019.

The dividend so declared will be satisfied:

- (i) partly by way of payment in cash for a value of Cents Fifty (LKR 0.50) net of withholding tax of fourteen per cent (14%) for each Ordinary (voting) share and Ordinary (non-voting) share held; and
- (ii) partly by the allotment and issue of Ordinary (voting) share/s and Ordinary (non-voting) share/s for a value of Rupees Two (LKR 2.00), net of withholding tax of fourteen (14%) for each Ordinary (voting) share and Ordinary (non-voting) share held.

Such dividend will be paid out of the profit of the Company for the year ended 31 December 2018 which said profit has been recorded under "retained earnings" in the Company's Statement of Financial Position as at 31 December 2018. The Company made a profit of LKR 3,189 Mn. for the year ended 31 December 2018.

The total amount of the dividend that is proposed to be so declared is Rupees Nine Hundred and Fifteen Million Two Hundred and Forty Seven Thousand Seven Hundred and Thirty only (LKR 915,247,730.00). The dividend to be satisfied in the following manner:

Method of satisfaction	Total amount (LKR)
By way of a payment in cash	183,049,546.00
By the allotment and issue of new Ordinary shares	732,198,184.00
Total	915,247,730.00

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 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, Chartered Accountants.

ISSUE OF NEW ORDINARY SHARES TO ENTITLED SHAREHOLDERS

In view of the aforementioned proposal, the Company 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 on which the requisite resolution of the shareholders declaring the dividend is duly passed. In view of there been a deduction for dividend withholding tax of fourteen per cent (14%) the monetary amount for which Ordinary (voting) shares and Ordinary (non-voting) shares would be issued is LKR 629,690,438.24. Accordingly, the shares to be allotted would be as follows:

- (a) One new fully paid Ordinary (voting) share for every 40.8720928942 existing Ordinary (voting) shares held by the entitled shareholders; and
- (b) One new fully paid Ordinary (non-voting) share for every 25.5813924919 existing Ordinary (non-voting) shares held by the entitled shareholders.

Consequently, a maximum of Four Million Five Hundred and Four Thousand Three Hundred and Ninety Four (4,504,394)

new Ordinary (voting) shares and a maximum of Seven Million One Hundred and Fourteen Thousand Three Hundred and Fifty Four (7,114,354) new Ordinary (non-voting) shares will be issued. Accordingly, the Ordinary (voting) shares in issue will increase from 184,104,010 to 188,608,404 and the Ordinary (non-voting) shares in issue will increase from 181,995,082 to 189,109,436. 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 Seventy and Cents Thirty (LKR 70.30) per Ordinary (voting) share and Rupees Forty Four (LKR 44.00) per Ordinary (non-voting) share respectively, being the closing prices of the respective shares as at the end of trading on 15 February 2019. 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 12,025,795,114.70 to LKR 12,655,485,552.94. 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 there from shall be distributed to a charity or charities as shall be determined and approved by the Board of Directors.

Fractional entitlement referred to herein shall mean the fractions after applying the respective formula for the issue and allotment of the new shares as indicated below:

Ordinary (voting) shares	Number of Ordinary (voting) shares held by a shareholder as at end of trading on the AGM date	X 1
	40.8720928942	
Ordinary (non-voting) shares	Number of Ordinary (non-voting) shares held by a shareholder as at end of trading on the AGM date	X 1
	25.5813924919	

LISTING ON THE COLOMBO STOCK EXCHANGE

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.

ALLOTMENT 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 (to the extent each shareholder has become entitled there to) within seven 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.

ALLOTMENT OF NEW SHARES TO SHAREHOLDERS WHO DO NOT HOLD CDS ACCOUNTS

In view of the Direction issued by the Securities and Exchange Commission of Sri Lanka and Circular No.13/2010 issued by the CDS 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 the new share entitlements to the respective CDS accounts.

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 Colombo Stock Exchange 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 2018 and shall be dependent on and subject to the shareholders passing the resolution declaring the said dividend.

ANNUAL GENERAL MEETING

The Annual Report of the Company and the Notice of the AGM scheduled to be held on Thursday, 28 March 2019 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. A shareholder who wishes to appoint a proxy, should complete and return the enclosed Form of Proxy (in accordance with instructions specified therein) addressed 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 Directors
of Seylan Bank PLC



Mrs N N Najumudeen

Company Secretary

1 March 2019

Note: Please contact the Company Secretariat on +94 11 245 6380, +94 11 245 6396 or +94 11 245 6397 for any clarification/information.

NOTICE OF MEETING

Notice is hereby given that the **Thirty Second Annual General Meeting of Seylan Bank PLC (“the Bank” or “the Company”)** will be held on **Thursday, 28 March 2019 at 10.00am at the Grand Ballroom, of Galadari Hotel, No. 64, Lotus Road, Colombo 01 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 2018 together with the Report of the Auditors thereon.
2. To declare a first and final Dividend for the financial year ended 31 December 2018 as recommended by the Board of Directors which said declaration is further explained in the Circular to Shareholders dated 1 March 2019 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 Nine Hundred and Fifteen Million Two Hundred and Forty Seven Thousand Seven Hundred and Thirty only (LKR 915,247,730.00) which constitutes a dividend of Rupees Two and Cents Fifty Only (LKR 2.50) per share be distributed to the holders of Ordinary (voting) and Ordinary (non-voting) shares as follows:

- (i) A sum of Cents Fifty (LKR 0.50) to be declared in cash on each Ordinary (voting) and Ordinary (non-voting) share, net of withholding tax of fourteen per cent (14%); and
- (ii) A sum of Rupees Two (LKR 2.00) net of withholding tax of fourteen per cent (14%), to be declared by way of allotment of new Ordinary (voting) shares in the ratio of one new fully paid Ordinary (voting) share for every 40.8720928942 existing Ordinary (voting) shares held and one new fully paid Ordinary (non-voting) share for every 25.5813924919 existing Ordinary (non-voting) shares;

THAT such dividend so declared be paid out of profits of the Company for the year ended 31 December 2018 which said

profit has been recorded under “retained earnings” in the Company’s Statement of Financial Position as at 31 December 2018;

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 on which the requisite ordinary resolution of the shareholders is passed (“entitled shareholders”);

THAT the total number of new Ordinary (voting) shares to be issued would be a maximum of Four Million Five Hundred and Four Thousand Three Hundred and Ninety Four (4,504,394) and the total number of Ordinary (non-voting) shares to be issued would be a maximum of Seven Million One Hundred and Fourteen Thousand Three Hundred and Fifty Four (7,114,354);

THAT the shares issued consequent to the allotment referred to above be listed on the CSE;

THAT the residual share fractions (“fractional shares”) arising from the aforementioned issue and allotment of new Ordinary (voting) shares and Ordinary (non-voting) shares shall be aggregated and allotted to a trustee to be nominated by the Board of Directors who shall hold in trust and dispose the said fractional shares on the trading floor of the CSE and the sales proceeds arising therefrom shall be distributed to a charity or utilised for a charitable purpose as shall be determined and approved by the Board of Directors;

THAT the fractional entitlement referred to herein shall mean the fractions arising after applying the respective formula for the issue and allotment of the new shares as indicated below:

Ordinary (voting) shares	Number of Ordinary (voting) shares held by a shareholder as at end of trading on the AGM date	X 1
	40.8720928942	
Ordinary (non-voting) shares	Number of Ordinary (non-voting) shares held by a shareholder as at end of trading on the AGM date	X 1
	25.5813924919	

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 S V Corea who retires at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company. Mr S V Corea is a Non-Executive Director of the Bank and was appointed to the Board on 14 May 2015. His profile is published on page 83 in the Annual Report.
4. To re-elect as a Director, Mr W M R S Dias, who retires by rotation at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company. Mr W M R S Dias, who was appointed to the Board as a Non-Executive Director on 29th May 2015, is the Non-Executive Chairman of the Bank. His profile and other directorships held are published on pages 81 and 134 respectively in the Annual Report.
5. To elect as a Director, Mr D M D K Thilakaratne, who retires at the Annual General Meeting in terms of Article 89 of the Articles of Association of the Company. Mr D M D K Thilakaratne was appointed to the Board as a Non-Executive Director, on 1 October 2018. His profile and other directorships held are published on pages 84 and 136 respectively in the Annual Report.

6. To elect as a Director, Mr D R Abeysuriya, who retires at the Annual General Meeting in terms of Article 89 of the Articles of Association of the Company. Mr D R Abeysuriya was appointed to the Board as an Independent Director on 17 October 2018. His profile and other directorships held are published on pages 85 and 136 respectively in the Annual Report.
7. To reappoint Messrs KPMG, Chartered Accountants as the Auditors of the Company for the financial year, 2019 and to authorise the Board of Directors to determine their remuneration in respect of the said financial year.
8. To authorise the Board of Directors to determine donations that may be made by the Bank during the year, 2019.
9. To consider any other business of which due notice has been given.

By Order of the Board of Director
Seylan Bank PLC,



Mrs N N Najumudeen
Company Secretary
Colombo

1 March 2019

Please refer the following instructions regarding attendance at the above meeting.

- 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 at Seylan Towers, No. 90, Galle Road, Colombo 03 (Attention: Company Secretary, Level 13, Seylan Towers) not less than 48 hours before the time appointed for the holding of the Annual General Meeting, i.e. before 10.00am on 26 March 2019. 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
Phone : +94 11 245 6000
Fax : +94 11 245 6456
Swift : SEYBLKX
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 2014, 2016 and 2018 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 W D Kapila Jayawardena
Deputy Chairman/Non-Executive Director

Ms M Coralie Pietersz
Independent Director/Senior Director

Mr Kapila P Ariyaratne
Director/Chief Executive Officer

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

Mr D M D Krishan Thilakaratne
Non-Executive Director

Mr D R Abeyasuriya
Independent Director

Mr R D Tissera
Non-Executive Director (Alternate Director to Mr W D K Jayawardena)

Independent Director, Mr Samantha P S Ranatunga retired from the Board as at 11 January 2019.

Company Secretary

(Mrs) N N Najumudeen
ACIS (UK), ACCS (SL)

Auditors

Messrs KPMG,
Chartered Accountants

Subsidiary

Seylan Developments PLC
(Company Registration Number. PQ 151)
Level 15, Seylan Towers
No. 90, Galle Road, Colombo 03

For any clarifications on this Report, please contact:

The Chief Financial Officer
Seylan Bank PLC
"Seylan Towers"
No. 90, Galle Road
Colombo 03

email : pmu@seylan.lk

Phone : +94 11 245 6371,
: +94 11 245 6367

Fax : +94 11 245 2612

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 Waduthanthri Darshan Kapila Jayawardena of Battaramulla, whom failing,
Ms Miriam Coralie Pietersz of Battaramulla, whom failing,
Mr Kapila Prasanna Ariyaratne of Colombo 03, whom failing,
Mr Paththayame Lekamalage Sisira Kumar Perera of Seeduwa, whom failing,
Mr Srikumaradas Viran Corea of Dehiwela, whom failing,
Mr Anushka Sheran Wijesinha of Colombo 05, whom failing
Mrs Sandya Kumari Salgado of Panadura, whom failing
Mr Don Manuwelge Don Krishan Thilakaratne of Battaramulla, whom failing
Mr Darshan Ravindra Abeysuriya of Rajagiriya

as my/our* Proxy to represent me/us* and to vote on my/our* behalf at the Thirty-Second Annual General Meeting of the Company to be held on Thursday, 28 March 2019 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 2018 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 2018 as recommended by the Board of Directors and to consider and if thought fit to pass the resolution set out in the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect as a Director, Mr S V Corea, 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 W M R S Dias, 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 elect as a Director, Mr D M D K Thilakaratne who retires in terms of Article 89 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To elect as a Director, Mr D R Abeysuriya who retires in terms of Article 89 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
7. To re appoint Messrs KPMG, Chartered Accountants as the Auditors of the Company for the financial year, 2019 and to authorize the Directors to determine their remuneration for the said financial year.	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the Board of Directors to determine donations that may be made by the Bank during the year, 2019.	<input type="checkbox"/>	<input type="checkbox"/>

(*Please delete the inappropriate words)

Signed this day of 2019.

.....
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 shareholder who is an individual, be under the hand of the shareholder or his or her attorney; or
 - (b) if the shareholder is a company or a corporation, be either under its common seal or under the hand of an officer or attorney authorised by the such organisation in that behalf in accordance with its Articles of Association or Constitution.

In terms of Article 69, a company or corporation being a shareholder 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 or she represents as if he or she is 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 Number/Company Registration Number (as applicable).

Ordinary voting shareholders shall indicate with an "X" in the space provided as to how the 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 Registered Office of Seylan Bank PLC at Seylan Towers, No. 90, Galle Road, Colombo 03 (Attention: The Company Secretary, Level 13, Seylan Towers) at or before 10.00am. on Tuesday, 26 March 2019 (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.



**This Annual Report is
Carbon Neutral**

Produced by Smart Media (Pvt) Limited, a carbon neutral company that offsets its direct and indirect GHG emissions through verified sources.



“The Goose that laid the Golden Eggs” is a fable that reinforces the value of empathy-generated sustainability over the long term. It is also about the “golden” values of care and empathy.

Seylan is “**The Bank with a Heart**”. Our “**heartfelt**” approach has helped all our stakeholders to face unforeseen challenges confidently and successfully.



The bank with a heart

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: SEYBLKX